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Third Annual Report
of the
United States High Commissioner
to the Philippine Islands
to the
President and Congress of the United States
Covering the Calendar Year 1938 and the
First Six Months of 1939

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Manila, October 1, 1940

THIRD ANNUAL REPORT
OF THE
UNITED STATES HIGH COMMISSIONER
TO THE PHILIPPINE ISLANDS
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THE UNITED STATES HIGH COMMISSIONER TO THE PHILIPPINE ISLANDS, MANILA

WASHINGTON, D. C., *October 1, 1940.*

SIR: Pursuant to section 7 (4) of the act of Congress of March 24, 1934, I have the honor to submit herewith the Third Report of the United States High Commissioner to the Philippine Islands, covering the calendar year 1938 and the first 6 months of 1939. The first 6 months of 1939 are included because Commonwealth Act 373 changed the Commonwealth government's records from a calendar year basis to a fiscal year basis ended June 30. The period from January 1, 1939, to June 30, 1939, is known as the "fiscal year 1939." Subsequent reports of the High Commissioner will be on a fiscal year basis. It may be pointed out that by including fiscal year 1939 in this report, the close of the period under review coincides approximately with the termination of my administration as United States High Commissioner to the Philippine Islands. Obviously the inclusion of the first half of 1939 in this report delayed its presentation.

During the period under review general conditions in the Philippine Islands contrasted sharply with conditions prevailing in a bedeviled outside world. The standard of living of the people suffered little if any decline; discussion and legislation centered around the concept of "social justice"; there was little or no evidence here of the world depression; unemployment was negligible; the banking system and the government's finances remained sound; peace and order were maintained internally; no threat of foreign aggression came to these shores.

The statement that the major part of these good things of life in the Philippine Islands is due to their association with the United States is incontestable. Because more and more Filipinos have come to realize this fact, my radio address from Washington on March 14, 1938, advocating a reexamination of future American-Philippine relations was not displeasing to them. My viewpoint evoked wide and continued discussion. Reexamination will continue to be the outstanding issue in the Philippines, because the only threat of tragedy facing the islands lies in the economic, financial, political, and international consequences of severance of American-Philippine relations.

Concern for the Philippines may be entertained on three scores: A trend toward financial dependence upon the United States due to the availability of refunds from excise taxes collected on Philippine products in the United States, temporary in nature, and amounting during the period under review to 43.4 percent of all other general fund revenues; the absence of practical measures to effect a readjustment of Philippine economy to withstand the losses which will inevitably be occasioned under the economic terms of the Tydings-McDuffie Act; and untoward developments in the international situation in the Far East. Japan's "New Order in East Asia" cannot

be interpreted as excluding an independent Philippines and this fact must be an immediate and major concern to all thinking Filipinos and Americans.

The period witnessed a decline in the price of the chief export products of the Philippines. This statement was particularly true of copra and abaca. The mining industry continued its advancement and recorded a notable increase in production. Sugar continued as the chief export product and accounted for more than a third of the total value of exports during 1938. This favorable result was due largely to the sugar limitation program and the still free American market.

The value of imports during 1938 was 22 percent greater than in 1937. However, the value of imports during the first half of 1939 was 35 percent less than similar values during the first half of 1938.

The government's finances continued in a flourishing condition. During the 18 months covered by this report, the Commonwealth received from the United States Government ₱58,913,242.12 of coconut oil excise tax funds. The total receipts of the general fund, excluding the coconut oil taxes, amounted to ₱136,960,555.08. Financial conditions during 1938 approached boom proportions. However, by June 30, 1939, evidences of future economic strains were not lacking.

American interests in the Philippines were advanced by congressional action in the Revenue Act of 1938, which gave a measure of relief to Americans liable for Federal income taxes—dating in some cases back to 1917 (pp. 28–29); by an agreement which ended the friction between the United States military courts and the Philippine courts in cases involving the personnel of the United States Army, Navy, and Marine Corps (pp. 13–16); by more equitable enforcement of the flag materials law; and by a favorable interpretation of the law governing mining claims (pp. 30–32). I was happy to be a party to the settlement of these long-standing controversies.

The Joint Preparatory Committee on Philippine Affairs rendered its report to the Chairman of the Interdepartmental Committee on Philippine Affairs on May 20, 1938. My comments on this report were forwarded to the President (pp. 17–19).

Legislation during the period under review was characterized by the number and amount of special appropriation acts, other than the acts covering the ordinary operations of the government. These acts envisioned appropriations approximating ₱356,000,000 (pp. 78–80).

Federal agencies in the islands maintained a creditable record in performance and cooperation (pp. 20–27).

A number of specific recommendations are given throughout the report. These will be found at the close of related sections.

I. Reexamination

In conference with the President I presented my views on future American-Philippine relations. These views were set forth publicly in a radio address March 14, 1938, under the auspices of the Washington Star. This address was rebroadcast in Manila through the courtesy of the National Broadcasting Co. The address follows:

Philippine-American Relations

FELLOW CITIZENS: History is a strange thing; its events pass with the seeming finality of a gunshot; but the consequences of each event continue so long as the world turns and man lives. For nearly a year I have been serving you and your President as your representative in the far off Philippines. These 7,000 of the world's most beautiful and fertile islands do not often intrude upon your attention—not often enough. One writer has it, "When Dewey took Manila Bay in 1898, you could almost hear the snap of geographies opening all over the United States." I hope you will open them again and put your finger on the bold little archipelago which juts out at the southeast corner of Asia. And it's not so little. Its arable land is probably greater than that of Japan proper and its total area is about equal to that of Great Britain.

The 7,000 islands are inhabited by 15,000,000 people who owe allegiance to our Nation, salute our flag, most of whom speak our language, sing our "Star Spangled Banner," and what is most important worship our Christian God. And their number is growing rapidly. Population has twice doubled since they came under our flag nearly 40 years ago.

We took over the islands through no real choice of our own. Their acquisition was the consequence of a war waged with Spain on another issue. Perhaps it was not wise; perhaps it was not altogether fortunate for us, but it is a fact of history and we cannot shun its consequences. When the Treaty of Paris confirmed our proprietorship, we undertook a very noble experiment—one which was new to the world of colonies and empires.

Spain had accomplished little else than the Christianization of the great majority of the people: Nothing creditable in the way of schools; no marked improvement of health and sanitation; no improvement in the people's standard of living; nothing of what we call political liberty; no substantial participation in government. She had ruled harshly amid big and little rebellions and without the affection or understanding of her wards. Our policy was the reverse. The bugles of war had not quieted and the acrid smoke of gunpowder still clouded the rice fields when, wonder of colonial wonders, corporals and sergeants shared their rations with famished natives and opened schools for the thought-hungry youth of the Philippines.

One army transport, the unforgettable *Thomas*, brought not guns and soldiers but 600 American school teachers. Then followed doctors and sanitarians, engineers, judges, civil servants, and devoted Commissioners and Governors—a line of gracious, humanitarian, altruistic Americans who saw the Philippine problem solely as one self-sacrificing duty in perfecting a harmony of welfare between the motherland and the colony. As I read over the annals of American occupation, I feel proud of that list of distant pro-consuls who so honorably acquitted their tasks in so distant an outpost, and I feel a humility in joining their company.

But my pride goes deeper than the Governors. No community has ever harbored a more attractive group of Americans. Ex-soldiers and officers who stayed on and others who followed became honest merchants, founders of new industries, miners, lumbermen—a goodly concourse who believed in the Filipino and paid him higher wages than he had ever previously earned; who believed in the Philippines and gave it their last ounce of thought and Yankee ingenuity. There was not an exploiter or enslaver among them. They worked hard, plowed back their profits, held their counsel, and assisted mightily to lay the foundations of American culture in the Orient, Christianity and American culture.

With the best of intentions, ever-anxious to improve the ways and means, the spirit and conscience, of colonial enterprise, the American regime followed two contradictory policies. What did we do on the political side? From 1898 to 1913 we insisted that the Filipinos be prepared for self-government. While the word "independence" seems not to have been officially used, we read aloud our own Declaration of Independence, and our school teachers taught the children to recite Patrick Henry's "Give me liberty or give me death." We made no effort to "doctor" history. We let the Filipinos in on our own great epic. But, more substantially, we established a wide suffrage; we appointed natives as town presidents and provincial governors—we nearly forced them to take posts in their own government.

In 1916 we established a very full scheme of self-government on the American tri-power democratic republican model, with a promise of future independence,

and, except for the highest executives and the highest judges, we put the whole set-up into native hands. When and where they failed, they were taught to correct. And so the process went on until an autonomous Commonwealth government and a definite date of independence was set in the Independence Act of 1935. From some 65,000 American soldiers and 5,000 American civil employees in 1900, we came in 1935 to a garrison of less than 5,000 American soldiers and about 100 American employees, practically all in subordinate positions. Thus, with good grace and speed we proceeded through participation and partnership to a fixed date, July 4, 1946, for absolute, political, international independence.

Now look at the economic policy. The Philippines were not at first brought into our own customs and tariff area. There was a 16-year promise in the Treaty of Paris to grant Spain the same Philippine trade privileges we might grant ourselves. This, together with the most-favored nation clauses in treaties with still other nations enabling them to claim any Philippine trade privileges we might grant Spain, prevented us from extending special privileges to American goods in the Philippines until 1909. We did, however, grant Philippine goods the moderate advantage of a 25 percent discount on our import duties. This period, 1899 to 1909, may be termed a period of *independent economy*. The Philippines traded with other countries as much as it did with us and its trade was in close balance. There was a slow but steady development based largely on indigenous economy.

When 1909 came around and America was released from its obligations to Spain, the policy of independent economy was changed to one of *complementary economy*. Congress adopted the policy of limited free trade between the United States and the Philippines. The goods of both areas were freely traded, except that the quantities of sugar and tobacco products which could enter the United States free of duty were strictly limited. These were the only two commodities produced in the Philippines at that time which threatened to become competitive with American production. The plan was to create an "economic couple" between the motherland and the colony in such manner that both would prosper and neither be damaged. The arrangement was healthy. Both American and Filipino producers and laborers prospered.

It is to be regretted that this policy of *complementary economy* was not continued for long. In 1913 Congress removed the limitations on sugar and tobacco and granted unlimited free trade between the United States and the Philippines. This fact and the heightened demands of war time resulted in an overwhelming development of production of sugar, coconut oil, and other commodities which after the war came into competition with the normal supply of like commodities produced in the continental United States itself. Thus the period from 1913 to 1934 is termed one of *competitive economy*. Philippine industry and government revenue were directed into artificial trade channels. Artificial because the trade was supported only by the fact that Philippine goods entered the American market free and there commanded a high price because we imposed high tariffs on the same or similar goods from other countries.

So far as actual dollars and cents go, it was a fine time for the Philippines. Trade doubled, trebled, quadrupled. The balance of trade with foreign countries was negative, but that with the United States was great enough to wipe out all losses and provide in some years a net favorable balance of between 40 and 50 million dollars—an amount about double the public debt of the Philippines; an amount equal to one and a half times the annual budget; an amount almost equal to the average annual circulation of money in the islands.

The profit has not been all on one side. American export business to the islands has flourished. It rose steadily and the Philippines has come to be the ninth best customer of the United States, purchasing from 60 to 70 percent of her requirements from America. The islands are America's largest export market for wheat flour, cigarettes, butter, condensed milk, cotton cloth, galvanized iron sheets, and a host of other items. Her consumption preferences have been pretty thoroughly Americanized, thanks to energetic American business pioneers there. Her citizens have learned to like American things, from food and dress to motor cars and movies.

Today the Philippines is the only bright, prosperous spot in the Orient. Its people enjoy the highest wages and best standard of living in the Far East. The deadly tropical diseases—smallpox, cholera, bubonic plague—which long decimated the population—have been wiped out. Thousands of miles of good highways are maintained. Bridges have replaced bamboo rafts. The budget is balanced. Taxes are the lowest in the world. The reserve behind the cur-

rency is 100 percent. The per capita national debt is less than \$2. Schools and hospitals dot the jungle and plain. We built well in the Philippines. Our work is a monument to American idealism and enterprise—a living monument of 15,000,000 rescued from tyranny, rebellion, ignorance, poverty, and disease, and set upon the path of free government, peace, education, prosperity, and health. With all seriousness, no nation in the world can boast of so grand a monument.

But a problem has arisen and one which we alone can solve. You recall the two policies which I have described. Politically we brought the islands through progressive steps to the verge of *independence*. Economically we brought the islands through progressive steps to almost complete *dependence* upon our markets. On one hand we sought to sever the ties; on the other we chained them ever closer to us.

The problem arose from the insistent repeated requests of the Filipino leaders during the twenties and early thirties to fix a nearby date for independence—but for independence with a continuation, at least in part and for a considerable time, of the economic protection we have granted them. They also wanted neutralization or American military protection, if they could get it. Here at home, groups representing American producers and investors who found duty-free Philippine products in competition with their own products, quickly took advantage of the desire of the Filipino leaders; brought pressure to bear on general policy; and sought to obtain for the Philippines a fixed date of independence but without *economic protection thereafter*.

Now, I have no quarrel with the lobbies. They were open and aboveboard about it and behaved as well, or better, than do most lobbyists. There was some competition and more threatened. However, there were offsetting American advantages which were not properly presented to the people. For example: the annual value of cigarettes, wrapper tobacco, and tobacco machinery, which we sell to the Philippines generally equals and sometimes exceeds the value of cigars which we buy from them. The annual value of the farm products—wheat flour, condensed milk, dairy and meat products—which American farmers sell to the Philippines, exceeds the value of Philippine coconut oil sold for use in margarine. Philippine sugar has never replaced an ounce of beet sugar—it has replaced a quantity of Cuban sugar. One can go right down the line and point out the many instances of trade reciprocity which our lobbyists neglected to mention.

The combination of Filipino leaders interested in independence and American lobbyists joined by sincere believers in self-determination at any cost, and by a few isolationists, resulted in the Hare-Hawes-Cutting Independence Act of 1932. This act sought to solve the problem by fixing the date of political independence 10 years later; by providing immediate quota limits on duty-free Philippine sugar, coconut oil, and cordage; providing for a 10-year period of transition under an autonomous Commonwealth; providing for increases in duties on Philippine goods from 5 percent in 1941 to 25 percent in 1945; providing for 100 percent duties beginning at the moment of independence, and finally providing that the act should not become law until accepted by the Philippine Legislature.

The act had rough going in the United States. It was vetoed by the President and then re-passed over his veto. When the act arrived in the Philippines it had still rougher going. The ninth Philippine Legislature met and rejected the act. Many thought that was the end of it. But in 1933-34 other Filipino leaders came to the United States and tried to get a better bill—one that would be more protective of their economic interests and more clearly define the political powers of the Commonwealth government. In this they were blocked; no better terms were available. So, the rejected Hare-Hawes-Cutting Act was revived with no change in these respects though it was re-named the Tydings-McDuffie Independence Act and the clause providing for American military bases after independence was stricken out. The Tydings-McDuffie Act was promptly accepted by the same ninth Philippine Legislature which had just previously rejected the Hare-Hawes-Cutting Act. It should be said, however, that the resolution of acceptance carried a clause praying for future amendment of the economic terms of the act in accordance with the expressed views of the President of the United States that inequalities in the act would be examined and corrected later.

But the Commonwealth was inaugurated. Sovereignty was not altered—the islands remain until 1945 in full allegiance to the United States. In the meantime the problem has broadened. Treaties concerning the Orient have been violated. Over the major area of the Orient famine and pestilence and blood-

shed are raging. Our open door policy has been more than seriously challenged. Our policy of freedom of the seas and freedom of the air is in the balance.

And what of the Philippines? They have come to the crossing of the roads. The events of the last year have given many thoughtful Filipino leaders an object lesson and food for thought. Perhaps, suddenly, but they hope not too late, many have come to realize that independence, however attractive from a spiritual viewpoint, may mean a mere trade of sovereignties. They realize that the laws—United States laws—excluding Asiatic immigration could scarcely be enforced by an independent small nation in their quarter of the globe. The Philippines is sparsely populated and it is surrounded with nations whose teeming millions are spilling over their national boundaries. An independent Philippines thus faces a very real threat of racial extinction. Add to this the question of its ability to defend itself from foreign military aggression and the economic disaster attendant upon sudden loss of the American market and you have the picture.

From the American viewpoint the picture is equally gloomy. If we withdraw from the Philippines we lose our voice in oriental diplomacy. We leave a barrier reef of islands from Kamchatka to Borneo—all practically within sight of each other—a barrier which will intervene between the United States and the Continent of Asia. In foreign hands, this barrier will block our trade and intercourse with China. It will solve the claims of freedom of the seas and freedom of the air—solve them unfavorably to us and to our children.

Again, today the Philippines is a happy spot in an unhappy Orient—the one place out there where decency, democracy and peace reign; where the orderly processes of democracy have a chance to develop; where, and only where, Christianity rules the souls of an eastern people; where and only where, the peculiar culture of America holds forth a torch of liberty and the love of fellow man.

A great British writer said after the World War that he did not fear that America should become the great leader of the world—that what he did fear was that America would refuse to take the position of leadership for which she was so eminently fitted both as to resources and ideals.

To us there comes a responsibility. It appears now in respect to the Philippine problem broadened to become a part of a greater oriental problem. If we scuttle, if we run away, our monument will be destroyed. The things we counted on, our aspirations to point the way to a new benign colonialism, our handicraft will perish. Our grandchildren will read a history which will apply to us the epithet "quitter"—a word which is just about the worst insult in the lexicon of a true American.

I believe I voice the inherent desire of my nation when I say that we want to solve the Philippine problem in fairness to all—we want to solve it just as we wish with fairness and justice to solve our domestic problems. It can be solved.

On the political side our flag and sovereignty should remain, allowing to the Philippines every ounce of domestic autonomy they can absorb—holding in our own hands foreign affairs, tariffs, immigration, currency, and public debt—scarcely more than marks of the necessary reservations of a dominion. We should feel free in case of any crisis to help preserve the democratic basis of the Philippine government.

On the economic side, we should from time to time give the Philippines the best trade deal we can without injuring our domestic producers. We must admit the possibility of competition. The present quantity quotas on sugar, coconut oil, and cordage should be retained and if other or new commodities come into competition with homeside products they also should be restricted with quotas. Our aim should be to assist with capital and men, with goodwill and such preferences as we can afford, the return to a *complementary and reciprocal economy* between the United States and the Philippines.

Then there is the problem of military protection. I venture to predict that so long as our flag flies over the islands no foreign power will trespass irrespective of the military forces stationed there. So long as our flag flies there, the Philippines will be the cornerstone of peaceful reconstruction in the Far East. I further venture that if our flag comes down, the Philippines will become bloody ground and the center of war within war for a generation.

Granted the Philippines is an outpost and a distant one in miles—but today it is only 5 days by trans-Pacific clipper.

But, the Philippines is an outpost of decency and peace—the only safe outpost for Christianity in the Orient—the only sure outpost for Americanism in the Orient. And whenever have we not had outposts? Our entire history has been

one of pushing the frontier; of setting distant points to be reached and distant aspirations to be achieved. Outposts have been the milestones of American progress.

Neither this American generation nor any other American generation should falter on its onward path. We cannot scuttle. We must not shirk.

Without too great a loss of time and with the cooperation of the leaders among the Filipinos we should proceed to a realistic reexamination of the needs of these people and the long-range interests of ourselves. If this study results in a policy favoring a permanent political and economic relationship with the Philippines, it shall be, I trust, because the Filipinos want it and because it is in aid of our national purposes. America will not impose her sovereignty by force upon any people. The enduring welfare and safety of both countries are to be the paramount consideration.

It is my conviction that they are not far apart and that they can be harmonized—harmonized for the salvation of the Philippines, for the larger interests of America, and for the peace of the Pacific.

Immediately after the speech the following message was received from President Quezon:

I have listened to your speech and have given out the following statement to the press:

"I have listened with very close interest to the speech of High Commissioner McNutt. I think his presentation of the facts as related to the economics of American-Philippine relations is unassailable. Although not in the High Commissioner's eloquent and forceful language, while in America last year, I made speeches referring to the relations of America and the Philippines during the last 40 years in substantially the same terms.

"No reasonable person who knows that the solution given in the McDuffie-Tydings law to the Philippine question is not fully satisfactory from the point of view of the Filipinos, can find fault with the proposition of the Commissioner that a reexamination of the whole question be undertaken at once. Everybody in the Philippines knows that the Philippine Legislature, in accepting and when it accepted the McDuffie-Tydings law, did so despite its objectionable features which were equally recognized by the antis and the pros, and that in finally accepting the act by a unanimous vote of its members, the legislature bore in mind what President Roosevelt had told the members of the mission that went to the United States to secure some amendments to the Hare-Hawes-Cutting law, that he, the President, would recommend to Congress a further study of the whole situation with a view to righting such injustices or inequalities as may exist, an assurance which presently was made good through a message which President Roosevelt sent to Congress.

"It must be noted that the High Commissioner, in proposing the 'realistic reexamination' of American-Philippine relations, emphatically takes the position that no permanent political and economic relationship with the Philippines shall be adopted as a policy unless the 'Filipinos want it.'

"It is unnecessary for me to add that when upon my return from the United States last year, I found some divergence of opinion among Filipinos as to what policy would best safeguard our national interest, I encouraged the free discussion of the subject as I have always maintained, as I do maintain, that the fate of the Filipino people cannot be placed in the hands of anybody, but must be left to the free choice and determination of the Filipinos 'themselves.'

Congratulations on your eloquent speech and please receive my personal appreciation of the sincere interest you have shown for the welfare of our people.

QUEZON.

However, on the following day President Quezon had a cabinet meeting and a press conference to which he invited representatives of my office. After this conference he sent me a radiogram reading as follows:

Today's morning papers have printed in full your speech and I hasten to inform you of my attitude toward your concrete proposal for future Philippine-American relations which I did not clearly hear during yesterday's broadcast and therefore I did not have in mind when I released my press statement and subsequently sent you my radiogram. The papers attribute to you the following statement:

"On the political side, our flag and sovereignty should remain, allowing to the Philippines every ounce of domestic autonomy they can absorb, holding in our own hands foreign affairs, tariff, immigration, currency, and public debt, scarcely more than marks of the necessary reservations of a dominion. We should feel free in case of any crisis to help preserve the democratic basis of the Philippine government. On the economic side we should from time to time give the Philippines the best trade deal we can without injuring our domestic producers. We must admit the possibility of competition. The present quantity quotas on sugar, coconut oil, and cordage should be retained; and if other or new commodities come into competition with homeside products, they also should be restricted with quotas."

The foregoing statement as I read it means merely the continuation of the government of the Commonwealth as constituted under the McDuffie-Tydings law with two modifications, one on the political side and another on the economic side. On the political side instead of independence at a definite time permanent continuation of America's sovereignty over the Philippines without an ounce of greater political autonomy as now provided in the said McDuffie-Tydings law for you propose to retain in the hands of the United States not only foreign affairs but also tariff, immigration, currency and public debt, and the right to take over the government of the Philippines supposedly under the same conditions that are authorized under the existing act. On the economic side you seem to favor the present economic policy that imposes no limitation as to the amount of articles and goods coming into the Philippines from the United States and under full tariff protection, whereas Philippine articles and goods will be subject to quotas and excise taxes and without any safeguard as against tariff changes in America. The only change in the economic policy in your proposal, as I see it, lies in the fact that at no time in the future will there be imposition of full duties on Philippine products.

I cannot subscribe to this program. On the political side, as I told you in our last conference when I authorized you to inform the President of my willingness to consider a revision of the present American policy toward the Philippines, I do not consider the provisions of the McDuffie-Tydings law as satisfactory. You will remember that when you told me that the Philippines is today more free than some States of the Union, I disagreed with your view and added that under the Commonwealth government as constituted in accordance with the McDuffie-Tydings law it would depend entirely upon the wisdom and sense of justice as well as liberal ideas of the incumbent of the Office of the High Commissioner for the government of the Commonwealth to have any real freedom of action except in unimportant public questions. Any permanent continuation of political relations between the United States and the Philippines to be acceptable to me must give the government of the Commonwealth the same powers and authority that are recognized in and exercised by the dominions of Great Britain except as to foreign relations. If such political relationship between the United States and the Philippines cannot be acceptable to the United States then it will be of little value to attempt to revise the present policy looking toward complete separation between the two countries for I am positive that the Filipino people will not agree to it and I myself could not advocate it.

On the economic side if the United States would consider preferential trade relations with the Philippines even after independence I would favor a trade relationship based upon reciprocal advantages.

I am sorry you did not state to me concretely before you left the terms under which you would be willing to recommend a revision of the American policy. If the details of your proposals as above stated do not represent yours or the President's final views on the matter, then I would suggest the opening of negotiations or conferences wherein we may be able to adjust our differences of opinion. My acquiescence to your proposal for reexamination of American-Philippine relations was given on my understanding that there would be no limitation upon the extent of the discussions. I wish further to remind you of the fact that at no time did I presume that what I might agree upon and advocate will be accepted by my people.

In order that my position be perfectly clear to you and to the President, especially in view of the radiogram I sent you yesterday, I am sending you this radiogram and I am explaining my views in a press conference to which I have invited people from your office.

QUEZON.

Widespread discussion of my proposal for reexamination continued. An increasing number of political leaders endorsed the pro-

posals both publicly and privately. The issue appeared constantly in the public press until some time after my departure from Manila.

Some of the features of Philippine economy which led me to the determination that reexamination is necessary will be found in the section on "Business, Trade and General Economy" in this report in appendix A.

II. Transfer of the Administration of Philippine Affairs From the War Department to the Department of the Interior

The President's Reorganization Plan No. 2 proposed the transfer of the functions of the Bureau of Insular Affairs, War Department, to the Division of Territories and Island Possessions, Department of the Interior. By congressional and Executive action taken about May 10, 1939, this change was ordered to be effected on July 1, 1939.

III. The High Commissioner's Office and Its Activities

Building program.—Bids for the construction of the High Commissioner's residence and office building in Manila were opened in Washington on April 29, 1938. The contract was awarded to the Marsman Building Corporation of Manila for \$440,794. Subsequent changes in the building plans resulted in a reduction of this figure to \$379,262.42. The construction will be a 2½-story building with 9 residential rooms, 4 public reception rooms, 20 offices, and adequate service rooms.

The building site is 17.14 acres of reclaimed land on Dewey Boulevard, adjoining the Army and Navy Club and the Elks Club sites. At the present rate of construction the building will be ready for occupancy in February or March 1940.

Bids for the Baguio residence were opened in Washington on July 15, 1938. The lowest bid amounting to \$151,200 was submitted by H. R. Goyke of Jacksonville, Fla. A contract with this company was signed on September 12, 1938. The Baguio building is in the style of a mountain lodge, with 12 residential rooms, 3 offices, and servants' quarters. As of June 30, 1939, the construction of the High Commissioner's summer residence at Baguio, including garage and servants' quarters and pump house, was 58.6 percent completed, and should be ready for occupancy early in 1940.

The structural design of both buildings is exceptionally strong to withstand earthquakes and typhoons. The architecture follows the modern colonial lines which have recently proved acceptable in Federal Government building plans in Washington and elsewhere in the United States. I believe that when the buildings are completed and their sites developed, the High Commissioner will be adequately and comfortably housed. It is to be regretted that the original appropriation did not provide sufficient funds for staff houses, as is customary in recent construction of United States diplomatic establishments in foreign countries.

It is recommended that an additional appropriation of \$350,000 be made available for the construction of staff quarters at Manila.

Office personnel.—I left the Philippines in May 1939 with the purpose of presenting my resignation immediately after proper reports

to and consultation with the President. I sailed on the U. S. Navy transport *Chaumont* on May 11, 1939.¹ Effective May 11, Mr. J. Weldon Jones, financial expert, was designated Acting United States High Commissioner.

The more important changes in personnel during my administration of the office were:

Mr. Leo M. Gardner, legal adviser, resigned effective August 17, 1938, leaving Manila on May 19, 1938. Mr. George A. Malcolm, assistant legal adviser, went on leave in the United States on April 3, 1939, and on April 15, 1939, Mr. Clyde DeWitt, a prominent member of the Philippine bar, was employed in the legal section on a part-time basis. Maj. B. F. Caffey, Jr., Army liaison officer on duty in the legal section, was transferred to the United States and left Manila on June 1, 1939. Major Caffey was succeeded by Lt. Col. Robert M. Carswell on March 22, 1939.

Mr. E. D. Hester, assistant financial expert, returned from leave and official duty in the United States on May 11, 1938. Mr. J. Weldon Jones, financial expert, left Manila on August 22, 1938, for leave and official duty in the United States, and returned to duty in Manila on April 7, 1939. Mr. Floyd Dubas, accountant-statistician in the financial section, left Manila on July 20, 1938.

Mr. Wayne Coy, administrative assistant, left Manila on April 7, 1939.

Lt. Col. William C. Rose, Army liaison officer, was transferred to duty in the United States and left Manila on January 5, 1938. He was succeeded by Capt. Melville F. Grant on July 11, 1938. Captain Grant left for the United States on June 1, 1939, and was succeeded by Lt. Col. C. M. Thiele on June 5, 1939. From May 24, 1939, to July 5, 1939, Lt. John H. Chiles was assigned to temporary duty in the Office of the High Commissioner.

Mrs. Margaret B. Headdy, private secretary, left Manila on May 11, 1939.

Lt. Comdr. J. C. Rockwell, naval aide, was transferred to duty in the United States, leaving Manila on May 11, 1939.

Mr. R. R. Ely, chief clerk and passport agent, left Manila on June 1, 1939, to take the position of Supervisor of Philippine Affairs in the Division of Territories and Island Possessions, Department of the Interior. His duties were taken over by Mr. E. C. Ross, who had been appointed assistant chief clerk and passport agent on November 1, 1938.

The situation in respect to organization and personnel is unsatisfactory. The United States has less facilities for direct observation and reporting of Philippine affairs than it has in foreign areas of equal population. This is due to the fact that the office is fixed at Manila and has no representation in other ports of entry or elsewhere in the islands such as afforded in other countries through a well developed diplomatic mission and consular system. In the Philippines itself, Japan and Great Britain, each with several consulates reporting to consulates general in Manila, are doubtless in closer contact with the people of the islands and are frequently better informed on fundamental social and economic conditions than the

¹ My resignation as U. S. High Commissioner to the Philippine Islands was tendered the President on July 12, 1939.

Office of the High Commissioner can be under its present limited organization. *I recommend that consideration be given to opening American residencies at Cebu, Iloilo, and Davao. These residencies should be staffed by Deputy High Commissioners reporting directly to the High Commissioner at Manila. This action would have the added advantage of properly preparing the ground for consular offices subsequent to independence.*

A serious condition arises in respect to personnel whenever there is a change in High Commissioners. It has so far been customary for the outgoing High Commissioner together with those whom he has brought out with him for positions on his staff to return to the United States and enjoy the whole or a part of their leave prior to resignation. The succeeding High Commissioner is then appointed, takes oath in the United States, and after a considerable period arrives at Manila with replacements for the several staff and clerical vacancies.

Between the departure of my predecessor and my arrival, there was an interval of nearly 1 year when there was no High Commissioner, no legal adviser, no private secretary, no assistant chief clerk, and for over 5 months no administrative assistant at the office in Manila. With my departure on May 11, 1939, there was a further delay of 4 months before the arrival in Manila of my successor. At the time of my departure there was no legal adviser on duty, and the administrative assistant, the private secretary, the chief clerk, the assistant chief clerk, and one of the confidential secretaries, returned to the United States for the purpose of resigning either with me or within a month of my departure.

During both of the intervals mentioned there remained on duty only two Presidential appointees, the financial expert, Mr. J. Waldon Jones, under appointment as "Acting High Commissioner," and the assistant financial expert, Mr. E. D. Hester, who performed or supervised with radically curtailed clerical personnel and without additional compensation all of the duties of the office. That this was done in a satisfactory manner is a testimony of their faithfulness to public office and of the endangerment of their health through working not less than 70 hours a week in a tropical climate.

The situation is further aggravated by the circumstance that all American personnel are entitled to accumulated leave with travel time to and from the United States after each 2 years of service. This leave is necessary if the American officers and employees are to retain their health and keep in touch with their native culture and their relatives, and it is furthest from desire to suggest any curtailment of these privileges. The net result of the limited number of discretionary officers on the staff, the absences due to accumulated leave, and the lapses occasioned by changes in High Commissioners is that during the nearly 44 months from the establishment of the office on November 15, 1935, to June 30, 1939, the full complement of American personnel was on duty for various periods, some of them quite short, totaling less than 15 months.

Due to the fact that under present legislation the Office of the High Commissioner will be discontinued with independence in 1946, tenure of American personnel is uncertain and there is no provision for their retirement or transfer subsequent to the discontinuance of the office. For this reason it will become increasingly difficult to obtain the best men for staff officers or even for the higher clerical positions.

Further in considering the personnel, it should be noted that there is no adequate provision for covering the most important field of Philippine activities, that of economics. With the knowledge that congressional acts have imposed on the United States as well as the Philippines the duty of a radical adjustment of Philippine economy and the holding of conferences to determine the economic relations between the Philippines and the United States subsequent to independence, in my opinion no time should be lost in remedying this defect.

In view of the foregoing conditions, I seriously recommend:

That the administrative assistant be replaced by an executive secretary and that whenever there is no High Commissioner within the territorial jurisdiction of the Philippines, he shall act as High Commissioner and when so acting shall receive the compensation and enjoy all the prerogatives of a High Commissioner.

I further recommend that there be an assistant executive secretary, who shall act as executive secretary during the latter's leave of absence.

I further recommend that provision shall be made for an economic adviser and an assistant economic adviser.

I further recommend: (1) That the positions of executive secretary, assistant executive secretary, financial expert, assistant financial expert, assistant legal adviser, and the new positions recommended above be placed under the civil service with retirement provisions equivalent to those now provided for Foreign Service officers; (2) that all clerical positions filled by American personnel be placed under civil service retirement privileges; and (3) that the positions of legal adviser and private secretary only be appointed by and serve at the pleasure of the High Commissioner.

Inspection trips.—I made a trip by airplane to Mindanao with Gen. L. R. Holbrook, Commanding General of the Philippine Department in January 1938. We made an aerial inspection of the Provinces of Lanao and Davao. The general's knowledge of conditions was of great value to me in observing the reduction by the Philippine Army of Moro strongholds in Lanao and the extent of Japanese colonization in Davao.

Mayon Volcano, in the Province of Albay, was in a state of eruption from June 6, 1938, to the end of the month. On June 14 I was flown over the volcano in an Army bomber. The eruption caused no loss of life and the damage to property was slight.

Trip to China.—Recent developments in the Orient, and especially the undeclared war in China, may have momentous influence upon the destiny of the Philippines. I was very anxious to have the views of Admiral H. E. Yarnell, Commander in Chief of the Asiatic Fleet, on the far eastern situation in general. Arrangements were made for me to go to Shanghai on the U. S. S. *Augusta*.

I arrived in Shanghai on January 20 and immediately inspected the devastated areas with Admiral Yarnell. I had a conference with Consul General Gauss and met the American community at an informal reception. On January 22 I received a number of American citizens at the consulate. I left Shanghai on the 22d and arrived in Manila on the 24th.

Trip to Washington.—Accompanied by Mr. Wayne Coy, administrative assistant, I left Manila by trans-Pacific plane on February 11, 1938, returning to Manila by plane on March 24.

Mr. Coy visited the President in August 1937 at which time President Roosevelt intimated that I should make a trip to Washington the following February to discuss American-Philippine relations in the light of the forthcoming report of the Joint Preparatory Committee on Philippine Affairs and to convey to the President my impressions after a year's study and experience in the Philippines.

Other matters requiring my attention in Washington included the following:

a. Discussion with the President of certain bills passed by the National Assembly in 1936 which were awaiting action by the President under the terms of section 2 (a) (9) of the Tydings-McDuffie Act.

b. The collection by the United States Bureau of Internal Revenue of income taxes from residents in the Philippines for the years 1917, 1918, 1919, and 1920, and subsequent years, with interest and penalties.

c. Discussion with the Secretary of State of the renewal of the existing agreements limiting Japanese cotton textile exports to the United States and its possessions. The agreement in force expired July 31, 1938, but was renewed for 1 year.

d. Discussion with the Secretary of War of his suggestion that certain chromite deposits in the Philippines now belonging to the United States be turned over to the Commonwealth government for development with a percentage of the chromite being delivered to the United States Army in the Philippines without charge.

e. Discussion with officials of the Department of State of the request of Philippine officials for approval of a trip by them to the Turtle and Mangsee Islands looking toward the administration of these islands by the Commonwealth government. The islands are now under the administration of British North Borneo although they are included in the Philippine group.

f. Discussion with officials of the Department of the Treasury, Procurement Division, of matters incidental to the construction of Manila and Baguio residences for the High Commissioner.

g. The motion to reopen the case before the Federal Trade Commission involving the right to the use of the term "Philippine mahogany" as descriptive of lumber of a certain species exported from the Philippines.

h. Scheduled hearing before the subcommittee of the House Committee on Appropriations on the Budget for the Office of the United States High Commissioner for the fiscal year 1939.

Satisfactory adjustment of differences between Army and Commonwealth authorities arising from concurrent jurisdiction in criminal cases over United States service personnel.—Prior to 1902, exclusive jurisdiction in criminal cases involving United States Army and Navy personnel was lodged in Army and Navy courts-martial. After the passage of the act of July 1, 1902 (Philippine Commission Act), both the military and civil authorities claimed jurisdiction in such cases. The United States Supreme Court in the case of *Grafton v. United States*, 206 U. S. 333, 51 L. Ed. 1084, held that as the civil courts in the Philippines and Army courts-martial were created by the same sovereignty (the United States) these courts had concurrent jurisdiction in criminal cases involving service personnel.

As a result of the decision in the *Grafton* case, *supra*, there was considerable trouble and bickering between the civil authorities and the Army and Navy high commands in the Philippines. In 1912, in an effort to improve this situation, the Governor General promulgated Executive Order No. 50, which reads as follows:

The following rules are hereby promulgated for the guidance of administrative and executive officers of the Government:

Where crimes, misdemeanors, violations of municipal ordinances or breaches of law are committed by soldiers, the offender if arrested in commission thereof shall be immediately placed in the custody of the commanding officer

of the nearest military post or station with a statement in writing of the charges and the names and addresses of the witnesses for the prosecution.

Where such offenders are not arrested while actually committing the offense and it is necessary to procure a warrant, the complaint shall be made before such commanding officer instead of before a civil court, unless the offense charged is by statute penalized by imprisonment for more than 1 year, in which latter case complaint will be made to the provincial fiscal, or prosecuting attorney where the courts of the city of Manila have jurisdiction.

In case of violation of a municipal ordinance, the commanding officer shall be informed of the ordinance and the penalty imposed for breach thereof, for the information and guidance of the military court in imposing its sentence. In the case of a breach of law punishable by imprisonment for more than a year, reference to the law or statute violated should be given and before turning over the accused there should be obtained from the commanding officer a document acknowledging receipt of the complaint and stating that the offender will be held ready to appear in the civil court for trial, and that he will be produced at the proper time.

The accused shall remain in custody of the military authorities until sentence or acquittal unless they desire to return him to the custody of the civil authorities.

The attention of all provincial and municipal executive and administrative officers is invited to the fact that under a decision of the United States Supreme Court, the trial of a soldier for a crime by either a civil or military court having jurisdiction is a bar to a subsequent trial for the same offense in the other court, and that the jurisdiction of the court first exercising it will bar the second.

This order shall take effect on September 25, 1912.

NEWTON W. GILBERT,
Acting Governor General.

Executive Order No. 50 was amended in 1929 to include naval personnel.

Although ambiguous, Executive Order No. 50 largely attained its purpose until the increasing number of automobiles resulted in motor accident cases involving service personnel and civilians. In the Philippines, criminal and civil issues are tried together, and the award of civil damages, if any, is made at the same time that sentence is passed. Friction grew between the civil and military and naval authorities in their efforts to obtain jurisdiction over alleged military and naval offenders.

While the Tydings-McDuffie Act was before Congress, the Commanding General, Philippine Department, recommended to the Secretary of War that provision be made in the act for criminal jurisdiction over service personnel to be vested in the Army and Navy authorities. The recommendation did not prosper.

The situation was brought to my attention shortly after my arrival in the Philippines. While I was discussing the problem, which was rapidly reaching a critical point, with military and naval officials and Commonwealth authorities, President Quezon issued his Administrative Order No. 43, August 20, 1937, which read as follows:

Prescribing supplementary rules and regulations governing the arrest of soldiers of the United States Army or members of the United States Navy and Marines and their delivery to the custody of the commanding officer of the nearest military, naval, or marine station of the United States.

In order to carry into effect the purpose of Executive Order Numbered Fifty, dated August seventh, nineteen hundred and twelve, as amended by Executive Order Numbered Two hundred ten, dated September thirtieth, nineteen hundred and twenty-nine, I, Manuel L. Quezon, President of the Philippines, by virtue of the powers in me vested by law, do hereby direct, for the guidance of all officials concerned that—

1. Where crimes, misdemeanors, violations of municipal ordinances or breaches of law are committed by soldiers of the United States Army or by members of the United States Navy and Marines, the offender shall not be delivered to the custody of the commanding officer of the nearest military, naval or marine station, except upon authority of the provincial or city fiscal.

2. Where the offense charged is penalized by imprisonment for more than one year, the document mentioned in paragraph four of the aforesaid Executive Order Numbered Fifty shall be accomplished under the direct supervision of the provincial or city fiscal and shall specifically contain a statement acknowledging delivery of the accused and receipt of the complaint and of the information as to the penalty which by law may be imposed upon the offender. It shall, likewise, contain an understanding that the offender will be held ready to appear in the civil court for trial and that he will be produced at the proper time.

Done at the city of Manila, this thirtieth day of August, in the year of Our Lord, nineteen hundred and thirty-seven, and of the Commonwealth of the Philippines, the second.

MANUEL L. QUEZON,
President of the Philippines.

The order was defended by the Department of Justice, when it was questioned by this office, on the ground that it had been intended to clarify certain parts of Executive Order No. 50. I at once submitted the matter to President Quezon and took the position that Administrative Order No. 43 presented amendments to certain provisions of Executive Order No. 50 which I did not believe would be acceptable. I pointed out that the situation had been further aggravated and now held possibilities of disorders. President Quezon agreed with my views in this respect. He assured me that at the time he signed Administrative Order No. 43 he was not aware of all the problems involved, and had been advised that the order was purely perfunctory in character. At the same time the Department of Justice assented to the position taken by my legal adviser that Administrative Order No. 43 had, in fact, nullified certain vital provisions of Executive Order No. 50.

After several conferences, President Quezon and I agreed that a new Executive order was both necessary and desirable. On this basis the legal section of my office, in conjunction with the Staff Judge Advocate, Philippine Department, prepared for submission to the Commonwealth authorities a new Executive order designed to supersede Executive Order No. 50, as amended, and Administrative Order No. 43. The new order was issued as Executive Order No. 151, April 30, 1938. Its chief provisions were:

a. It gives the military and naval authorities exclusive jurisdiction in all criminal cases involving service personnel except a few common law crimes (homicide, rape, larceny, etc.).

b. It gives the military and naval authorities exclusive jurisdiction over crimes involving military and naval personnel which are committed on military or naval reservations.

c. It gives the military and naval authorities exclusive jurisdiction over crimes involving military and naval personnel, when such persons are engaged in the performance of duties.

d. It reserves the rights of civilians to bring civil actions for damages against military and naval personnel in the local courts.

Executive Order No. 151 has worked well and I believe it is a satisfactory and equitable solution to the problem. In this connection I wish to include in this report a letter from the Commanding General, Philippine Department:

JULY 27, 1938.

The UNITED STATES HIGH COMMISSIONER
TO THE PHILIPPINE ISLANDS,

Manila, P. I.

YOUR EXCELLENCY: I desire to express my appreciation and the obligation of my entire command for your valuable assistance in securing the execution by the President of the Commonwealth of the Philippines on April 30, 1938, of Executive Order 151, the practical effect of which is to provide that military personnel who commit offenses, except serious crimes of a civil nature, shall be tried by military tribunals.

This affords a happy solution of an unsatisfactory situation which had existed for many years and which was potentially dangerous to harmonious relations between the military and civil authorities in these islands. Such a constructive achievement would have been impossible without your sympathy and energetic support.

Acknowledgment is also due to Mr. Leo M. Gardner and Maj. Benjamin F. Caffey, Jr., of your legal staff, for able assistance in this matter.

Very-sincerely yours,

JOHN H. HUGHES,
Major General, U. S. Army,
Commanding.

Procedure respecting legislation submitted to the President.—Section 2 (a) (9) of the Tydings-McDuffie Act provides that certain legislation shall “not become law until approved by the President of the United States.” No time limit for action is prescribed. A number of bills submitted as early as December 1936 which had not been approved by the President were in the files of the Bureau of Insular Affairs. In March 1939 the Bureau of Insular Affairs suggested that the Commonwealth government be given an opportunity to withdraw old bills which had not been approved by the President. The suggestion was made with particular reference to bill 3943 which affected the currency reserves. The Office of the High Commissioner, the War Department and Treasury Department had recommended that this bill be not approved.

The ensuing correspondence brought up the issue of the proper disposition of bills on which action was not taken within a reasonable length of time. Some officials held that the President could formally disapprove, and that he should take definite action one way or the other on all bills. The Commonwealth government preferred to withdraw bill 3943 by resolution of the National Assembly. This procedure was allowed and subsequently the Commonwealth withdrew other bills as reported in the section on the National Assembly (pp. 163-164).

Procedure respecting appeals from decisions of the insular auditor.—During the period under review the procedure for appeal from decisions of the insular auditor (now auditor general) was established. Section 7 (4) of the Tydings-McDuffie Act contains the following sentence: “Appeals from decisions of the insular auditor may be taken to the President of the United States.” This sentence is unrelated to the context of section 7 (4) and much confusion arose concerning appeals. Commonwealth Act 327, approved June 18, 1938, and effective the same date, prescribed the local procedure for these appeals. Executive Order No. 8135 signed by the President on May 15, 1939, complemented Act 327. It is pointed out that section 2 of Act 327 requires an aggrieved party to make his appeal in writing within 30 days of the receipt of the final decision of the auditor general; whereas no time is placed upon the filing of an appeal in the

Tydings-McDuffie Act and the Executive order of the President requires the appeal to be filed "within 30 days of the date of the decision appealed from."

IV. Federal Services in the Philippines

The Departments of State, Treasury, War, Navy, and Commerce and the Veterans' Administration are represented in the Philippines by services of great benefit and assistance to the Commonwealth and its people. Although these services are not under the High Commissioner, the Army and Navy, the Foreign Service officer, the Trade Commissioner and the Internal Revenue Office channel their business with the Commonwealth through the Office of the High Commissioner.

All the Federal services and offices in the Philippines continued during the year to function efficiently and harmoniously. The high morale and efficiency of the Army and Navy were of especial value.

Joint Preparatory Committee on Philippine Affairs

The Joint Preparatory Committee on Philippine Affairs appointed April 14, 1937, returned to Washington from their hearings in the Philippines, leaving Manila on November 12, 1937. On May 20, 1938, the Committee submitted its report to the Honorable Francis B. Sayre, Chairman of the Interdepartmental Committee on Philippine Affairs and to the Honorable Manuel L. Quezon, President of the Philippines. A copy was immediately made available to me and my comments were requested by the President. These were furnished in a memorandum dated June 30, 1938. I found that the report of the Joint Preparatory Committee on Philippine Affairs and its proposed legislation admittedly involved two programs: (I) Program for the Commonwealth, 1941-1946; and (II) Program for United States-Philippine trade relations after independence, 1946-61.

I considered that from the practical standpoint the division was useful. The proposals for the program for the Commonwealth, 1941-46, were in reality a correction of certain of the economic terms of the Tydings-McDuffie Act. As such they were moderate and designed to cover a brief nearby period. On the contrary, I found that the program for special trade relations between the two countries after independence, extending to 1961, involved commitments over a future period and raised an important issue as to the desirability of legislation so far in advance of the fact.

I. Program for the Commonwealth, 1941-46.—The proposals for the Commonwealth program were in full compliance with the implied promise of the President in his message to Congress, March 2, 1934, "I do not believe that other provisions of the original law need be changed at this time. Where imperfections or inequalities exist, I am confident that they can be corrected after proper hearing and in fairness to both peoples." This statement was quoted as in the nature of an informal reservation in the resolution of May 1, 1934, in which the Ninth Philippine Legislature accepted the Tydings-McDuffie Act. The proposals complied with the policy of liberal government and furnished a genuine basis for a return to an economy complementary with that of the United States such as existed prior to the beginning of the unlimited free trade in 1913. I favorably endorsed the Joint

Committee's proposals for the period 1941 to 1946, asking due consideration of the suggestions listed below, particularly, the strengthening of control over appropriation and expenditure of the coconut oil excise tax funds, relief from the excise tax on Philippine coconut oil destined for industrial purposes, more extended revisions of the Philippine tariff, and safeguards against discrimination against American goods through internal revenue taxes. The changes suggested were as follow:

1. Graduated import duties collected in the United States should be substituted for graduated export duties collected in the Philippines.

2. No United States duty, export tax, excise, or processing tax should be levied in the United States on Philippine coconut oil, or on coconut oil extracted in the United States from Philippine copra, provided such coconut oil be denatured in such a manner as to render it unfit for use in the manufacture of edible products.

3. A declining duty-free quota system instead of a graduated tax system should be imposed on Philippine sugar, and overquota shipments should be prohibited.

4. A declining duty-free quota system instead of a graduated tax system should be imposed on Philippine cordage.

5. Specific formulas for allocation of quotas, differing for the various commodities, should be provided instead of the single formula for all commodities.

6. Administration of commodity quotas should be under the United States Government instead of the Philippine government, or, alternately, provision should be made for appeal to the High Commissioner of matters affecting allocation.

7. Philippine import duties on a number of commodities, in addition to those recommended by the Committee, should be revised upward.

8. Congress and the President should have effective control over appropriations to the Philippines of the proceeds of the coconut oil excise and sugar processing taxes, and of expenditures thereunder.

9. The funded debt of the Manila Railroad Co. and of other obligations and liabilities of the Philippine government, its subdivisions and instrumentalities, should be included in the provisions respecting bonded indebtedness.

10. Philippine reserve for contingencies should be set aside.

11. Definite provision should be made for appeal to the High Commissioner and the President of decisions from the Auditor General of the Philippines.

12. Appropriations to the Philippines under the act of Congress of June 19, 1934 (48 Stat. 1115) should not be reconsidered.

13. The Committee's recommendation that the program be effectuated through bilateral enactments should be construed as advisory rather than mandatory, and the United States Government should feel free to effectuate a program by statutes of Congress.

II. Program for United States-Philippine trade relations after independence, 1946-61.—Admitting that the Committee based its post-independence program within its points of reference, it was my opinion that some aspects of the program were controversial and would adversely affect certain fundamental policies of the United States. In the trade provisions there appeared to be a lower degree of effective advantage in respect to American goods entering the Philippines than there would be for Philippine goods entering the United States. The question arose that, if the United States and an independent Philippines should exchange trade concessions, it was not improbable that other nations, particularly Japan, would claim a similar exchange of concessions. Then, the United States would be forced into one of three untenable situations: (1) Continuation of preferences for Philippine goods in the United States without reciprocal advantage for American goods in the Philippines; (2) withdrawal of preferences for Philippine goods in the United States, thus eliminating post-independence economic readjustment which was the basis of the Committee's post-independence program; or (3) to bring

such pressure as would prevent the extension of preferences to third powers, thus barring the United States to the accusation of abandonment of its Open Door Policy in the Far East.

The Committee's proposals advised the present administration to seek to bind the United States policy toward the Philippines for the period 1946 to 1961, and I held that our form of government, domestic and international policies, and rapidity of change in world politics cautioned against such long-term commitments in respect to an independent Philippines. The particular points which I advanced against the post-independence program follow:

1. United States goods should enjoy truly reciprocal rather than theoretically reciprocal treatment in the Philippines. The provision for the collection of graduated import duties on United States goods should be eliminated and a provision entered that "so long as the United States accords any preferences to Philippine goods, no Philippine import duties shall be collected on goods the growth, product, or manufacture of the United States; and no Philippine internal revenue taxes other than those collected by law on or before December 31, 1937, shall be collected against such goods."

2. No United States duty, export tax, excise, or processing tax should be levied in the United States on Philippine coconut oil, or on coconut oil extracted in the United States from Philippine copra, provided such coconut oil be denatured in such a manner as to render it unfit for use in the manufacture of edible products.

3. No quota should be imposed on cigarettes from the United States.

4. A declining duty-free quota system instead of a graduated tax system should be imposed on Philippine sugar, and overquota shipments should be prohibited.

5. A declining duty-free quota system instead of a graduated tax system should be imposed on Philippine cordage.

6. Specific formulas for allocation of quotas, differing for the various commodities should be provided, instead of a single formula for all commodities.

7. Administration of commodity quotas should be under the United States Government instead of the Philippine government, or, alternately, provision should be made for appeal of matters affecting allocation.

8. Denunciation of United States-Philippine trade treaties should be on 1 or 2 years' notice, instead of the Committee's provision which makes such treaties practically irrevocable during their useful life.

During the progress of the hearings in Manila and during my discussions with members of the Committee in Manila and in Washington it was forcibly brought to my attention that the basic and controlling thesis in respect to the official attitude of the United States toward the Philippines was this: *Economic adjustment away from preferences in the United States market should be considered a primary responsibility of the United States and should be achieved prior to consideration of political independence.* This position was further colored by the growing dislocation of international relations in East Asia and by the realization that, irrespective of economic reform, the Philippines could neither be neutralized nor prepared for its own defense by 1946.

The Joint Preparatory Committee on Philippine Affairs considered that its points of reference did not admit of consideration of the major issues involved. I therefore determined that the situation called for a wider and more realistic study which could take into account both domestic and international political conditions. Acting on this very sincere belief and in fact prior to the completion of the work of the Committee, I proposed a general and unlimited reexamination of the entire Philippine question. A discussion of my position in favor of reexamination is given elsewhere in this report.

Department of State

International Sugar Agreement.—The International Agreement Regarding the Regulation and Marketing of Sugar and the Protocol Annexed to the Agreement, London, May 6, 1937, carrying commitments in respect to the Commonwealth was confirmed by the National Assembly in a resolution approved March 17, 1938. On April 28, following, it was signed by the President of the United States, becoming Commonwealth Act 256.

Foreign Service officers.—Vice Consul Gregor C. Merrill continued his duties under section 8 (a) (3) of the Tydings-McDuffie Act until October 31, 1938. He was relieved by Vice Consul Alvin T. Rowe, Jr. On December 28, 1938, Consul Clayson W. Aldridge assumed charge of the consulate.

The principal function of the Foreign Service officer in Manila is to issue visas to Filipinos under the fixed annual quota of 50. In addition, the officer issues quota, nonquota, and nonimmigrant visas to nationals of foreign countries. The Filipino immigrant quota is taken up for the most part by those who have a preferential status as relatives of Filipinos legally residing in the United States. For the fiscal year ending June 30, 1938, in addition to the 50 Filipino immigrant visas, there were issued 118 nonquota visas, 365 nonimmigrant visas, and 23 quota visas to foreign nationals. Corresponding figures for the year ending June 30, 1939, are 79 nonquota visas, 551 nonimmigrant visas, and 24 quota visas to foreign nationals.

Mr. George L. Brandt, Foreign Service officer, State Department, arrived on December 12, 1938, to act as a special adviser to the Commonwealth on matters affecting immigration. He left Manila on June 13, 1939.

Department of the Treasury

Bureau of Internal Revenue.—The United States Bureau of Internal Revenue maintained offices in Manila. Mr. Wilson E. Wells continued as Chief of Division of the Maryland Collection District. The function of this division was the administering in the Philippine Islands of titles IV and VII of the Revenue Act of 1936 providing for the adjustment of the floor stocks of sugar as of January 6, 1936, and the refunding of certain taxes collected under the Agricultural Adjustment Act.

In addition, Mr. W. W. Bercaw, internal revenue agent from San Francisco, continued under instructions from the Bureau to survey, determine, and collect delinquent and current United States income, estate, gift, and capital stocks taxes from American citizens, aliens, and domestic and foreign corporations. Mr. Bercaw was assisted by Mr. Sidney D. Jackson and Mr. Lon Harold Moss, internal revenue agents.

Legislation favorable to Philippine residents, liable for both delinquent and current Federal income taxes, including citizens, aliens, and domestic and foreign corporations, was approved by Congress and incorporated in the Revenue Act of 1938. Section 813 of the Revenue Act of 1938, which was applicable only to certain American citizens and domestic corporations, forgave or remitted interest and

penalties due with respect to delinquent income taxes due for the years 1917 to 1920, inclusive.

Section 812 of the Revenue Act of 1938, which was applicable not only to American citizens and corporations but also to aliens and foreign corporations as well, had the effect of repealing a part of the income tax law which was detrimental to the American export trade to possessions. The provision (which was repealed retroactively to the date of enactment, 1925) provided that any profits realized on the sale in a possession of the United States of personal property purchased in the United States should be subject in part to United States income taxes. The profits made on foreign goods, other than American, sold in the Philippines were not subject to such tax. The repeal of this provision of the revenue act removed a provision of the law which was discriminatory against American export trade.

Further legislation was enacted in 1939 favorable to American residents of the Philippines. It provided for the allowance for income tax purposes of contributions made to recognized Philippine charities; and with respect to estate taxes, for the allowance as a credit against Federal estate taxes of estate taxes paid to the Philippine government to the same extent as a credit is allowed for taxes paid to a State.

Public Health Service.—The United States Public Health Service continued to supervise and conduct the Bureau of Quarantine Service in the Philippines, in cooperation with the Commonwealth. During the period under report the Bureau of Quarantine remained under the direction of Dr. H. F. Smith, senior surgeon, United States Public Health Service, detailed as chief quarantine officer for the Philippines and supervisor of the quarantine district of the Orient. Three other commissioned officers of the Public Health Service remained on duty in the Philippines to assist in conducting the quarantine function. The staff of the Bureau of Quarantine also includes a considerable number of physicians and employees provided by the Commonwealth government. Maritime conditions warranted the continuation of full time quarantine officers at the ports of Manila, Cebu, and Iloilo. At Aparri, Davao, Jolo, Jose Panganiban, Legaspi, and Zamboanga, the quarantine officers were employed on a part-time basis. Commissioned medical officers of the United States Navy acted as quarantine officers for the naval stations at Cavite and Alangapo. The activities of the two medical officers of the United States Public Health Service attached to the American consulates at Honk Kong and Amoy to enforce the sanitary conditions relative to the embarkation of passengers at these ports for the Philippines remained under the supervision of the chief quarantine officer for the Philippine Islands.

The functions of the bureau include supervision, inspection, and the enforcement of the quarantine regulations as they apply to vessels, their passengers, crews, and cargo arriving from foreign ports, in accordance with the provisions of the quarantine regulations and of the International Sanitary Convention of Paris; the supervision of outward bound vessels for the United States; inspection and vaccination of all personnel engaged on interisland vessels and the enforcement of interisland quarantine when such procedure is required; the inspection of arriving aliens in accordance with the laws and regulations governing the entrance of aliens into the Philippines; the physical examination of applicants for immigration visas to the United States; the maintenance and operation of quarantine stations

for the detention of passengers and crews from infected vessels; the physical examination of applicants for licenses as marine officers on vessels of Philippine registration; the physical examination of applicants for entry into the Philippine Nautical School; the annual physical and medical examination of government employees; the maintenance and operation of launches and other vessels used in carrying out quarantine functions and the supervision of arriving and departing aircraft.

In addition to these activities which apply directly to the Philippines, the Public Health Service in the Philippines conducted the hospitalization and out-patient care of persons employed on vessels of the American merchant marine, and also the physical examination of all beneficiaries of the United States Employees' Compensation Commission who required such examinations.

Relations were maintained with the Eastern Bureau, Health Organization, League of Nations, at Singapore for the correlation and dissemination of epidemiological data relating to quarantinable diseases in the Orient. The bureau receives weekly consular sanitary reports from American consulates throughout the Orient. The regulations of the International Sanitary Convention on Aerial Navigation, The Hague, were enforced at all ports of arrival and departure for airplanes.

Conditions in certain nearby oriental countries with reference to quarantinable diseases, especially smallpox, cholera, and bubonic plague, created acute conditions which required the enforcement of stringent regulations to prevent the introduction of these diseases into the Philippines. That the primary object of the bureau, which is the prevention of the introduction of quarantinable diseases into the Philippines, was successful is evidenced by the fact that although quite a number of cases of quarantinable diseases arrived at quarantine on vessels from infected ports, no case of cholera, plague, smallpox or other quarantinable disease gained access to, or occurred in, the Philippines during the 18 months under report.

Department of War

United States Army, Philippine Department.—The Philippine Department in the period under report continued to maintain a high standard of efficiency in training, discipline, and service. It continued close and friendly relations with my office. It is worthy of note that the department's relations with the Commonwealth government and the Filipino people were most cordial.

The Philippine Department continued to be of valuable assistance to the military adviser of the Commonwealth government and to the Philippine Army by the loan of personnel, supplies, and equipment. As of December 31, 1938, there were 35 officers, of whom 5 were Philippine Scouts, and 94 enlisted men, of whom 85 were Philippine Scouts, on duty with the military adviser.

Changes in the high command of the Philippine Department from January 1, 1938, to June 30, 1939, were:

Relieved from assignment in the Department

Maj. Gen. Lucius R. Holbrook, Department Commander, Fort Santiago, in February 1938.

Maj. Gen. Percy P. Bishop, Commanding General, Philippine Division, Fort Wm. McKinley, in November 1938.

Brig. Gen. Evan H. Humphrey, Commanding General, Fort Stotsenburg, in May 1938.

Brig. Gen. George Grunert, Commanding General, Twenty-third Infantry Brigade, Fort McKinley, in November 1938.

Arrived in the Department

Brig. Gen. Walter K. Wilson, assigned as Commanding General, Harbor Defenses of Manila and Subic Bays, Fort Mills, in February 1938.

Brig. Gen. Walter S. Grant, assigned as Commanding General, Fort Stotsenburg, in May 1938.

Brig. Gen. Henry C. Pratt, assigned as Commanding General, Twenty-third Infantry Brigade, Fort Wm. McKinley, in October 1938.

Brig. Gen. Francis W. Honeycutt, assigned as Commanding General, Fort Stotsenburg, in October 1938.

Changes within the Department

Maj. Gen. John H. Hughes, from Commanding General, Philippine Division, Fort Wm. McKinley, to Department Commander, Fort Santiago, in February 1938.

Maj. Gen. Percy P. Bishop, from Commanding General, Harbor Defenses of Manila and Subic Bays, Fort Mills, to Commanding General, Philippine Division, Fort Wm. McKinley, in February 1938.

Maj. Gen. Walter S. Grant, from Commanding General, Fort Stotsenburg, to Commanding General, Philippine Division, Fort Wm. McKinley, in November 1938.

Promotions

Brig. Gen. Walter S. Grant to major general, in October 1938.

The following officers were on special duty in my office during the period. Their services were highly efficient and satisfactory.

Lt. Col. William C. Rose, Adjutant General's Department, liaison officer. Colonel Rose was relieved from duty in the Philippine Department on January 5, 1938.

Maj. B. F. Caffey, Jr., Infantry, liaison officer, was on special duty in the legal section until his departure for the United States on June 1, 1939.

Lt. Col. Robert M. Carswell, Coast Artillery Corps, liaison officer, was on special duty in the legal section beginning March 1939, relieving Major Caffey upon his departure.

Lt. Col. Claude M. Thiele, Coast Artillery Corps, was assigned as Army liaison officer on June 5, 1939.

Capt. M. F. Grant, Infantry, was on duty as liaison officer from July 15, 1938, to his departure for the United States on June 1, 1939.

Second Lt. E. W. Maschmeyer, Air Corps, assistant liaison officer, departed for the United States on June 1, 1939.

First Lt. John H. Chiles, Infantry, was detailed as temporary assistant liaison officer on May 24, 1939, and relieved on July 5, 1939.

Aid to the Philippine Bureau of Aeronautics.—Capt. Alden R. Crawford, Air Corps, rendered valuable assistance to the Bureau of Aeronautics, Commonwealth Department of Public Works and Communications, as unofficial adviser, until he was relieved on November 30, 1938, by Capt. Frederick A. Bacher, Air Corps.

Aid to the Philippine National Power Board.—Capt. Hugh J. Casey, C. E., and Capt. Lucius Du B. Clay, C. E., continued their valuable service as advisers to the National Power Board in its work of developing the water resources and power sites of the Philippines. Captain Clay was ordered to the United States in July 1938.

Visit of General Burnett.—Brig. Gen. Charles E. Burnett, Chief of the Bureau of Insular Affairs, arrived in Manila on the U. S.

transport *Grant* on October 24, 1938. His visit was official. He took a 10-day trip to the southern islands on the Coast Guard cutter *Apo*. On November 28, General Burnett sailed for the United States via Japan.

Department of the Navy

The Asiatic Fleet throughout the period under report was under the command of Admiral H. E. Yarnell, U. S. N. In view of the unchanged situation in China relative to the operations of the Japanese, the regular routine of the Asiatic Fleet was disturbed as much during this period as during the preceding year. The fleet, with the exception of the submarines, proceeded to Chinese waters during the months of June and July 1938, returning to Manila early in November. Admiral Yarnell, however, remained in Chinese waters throughout the entire period, although his flagship, the U. S. S. *Augusta*, spent several months in Philippine waters.

The naval establishments of the Philippines, the Sixteenth Naval District, including the navy yard at Cavite and the naval station at Olongapo, were under the command of the commandant, Rear Admiral George J. Meyers, U. S. N., until he was relieved on May 10, 1939, by Commander E. T. Oates. Admiral Meyers left on the Navy transport *Chaumont* on May 11, 1939. Rear Admiral John M. Smeallie took over as commandant on May 31, 1939.

On January 17, 1938, Admiral Yarnell placed the Flagship *Augusta* at my disposal for the trip to Shanghai mentioned on page 12 of this report. I witnessed night battle practice firing by the Thirteenth Destroyer Division of the Asiatic Fleet off Olongapo during the first week of February 1938.

I greatly appreciated the cooperation and assistance of Admiral Yarnell, Rear Admiral Meyers and Read Admiral Smeallie.

Department of Commerce

Bureau of Foreign and Domestic Commerce.—The Bureau of Foreign and Domestic Commerce has for more than 20 years maintained an office in Manila headed by a foreign commerce service officer with the title of "trade commissioner." Mr. J. Bartlett Richards was trade commissioner until the middle of November 1938, at which time his successor, Mr. Paul P. Steintorf, took over the office. The staff of the office was increased in December by the assignment of Mr. E. Edward Schefer as assistant trade commissioner. This addition was made in recognition of the growing importance of the Philippines as a market for American products. The trade office, as it is locally called, has been of great assistance to American merchants and agents for American goods in the Philippines. Mr. Richards and Mr. Steintorf have been very helpful to the Office of the High Commissioner in all matters touching on the commercial economy of the Philippines.

The monthly report of the trade commissioner is comprehensive and accurate, and has been freely used by the staff in editing economic and trade data for the High Commissioner's quarterly and annual reports.

United States Coast and Geodetic Survey.—In cooperation with the Commonwealth government, the Coast and Geodetic Survey oper-

ates the Philippine Bureau of Coast and Geodetic Survey. The Bureau is controlled by the Federal Government insofar as concerns the surveying of coastal areas and the compilation and production of the nautical charts.

The Federal organization consists of six commissioned officers and three civil service appointees. Of the Federal personnel, one commissioned officer, the Director, is attached to the office. Capt. Thomas J. Maher, upon expiration of his 2-year tour of duty as Director of Coast Surveys, was relieved by Commander F. B. T. Siems on July 20, 1938. A Federal civil service appointee is in charge of the Computing and Nautical Divisions of the office; another Federal employee is an assistant to the Chief of the Drafting Division. The Chief of the Drafting Division was formerly a Federal employee; upon retirement, the Commonwealth of the Philippines retained him in the same position. Five commissioned officers and a Federal medical officer are attached to the ships *Pathfinder* and *Fathomer*, engaged in the field work of the bureau. The chief engineer of the *Pathfinder* is also a retired Federal officer retained by the Commonwealth.

The Filipino personnel at the office consists of the assistant director, the Chief of the Administrative Division, the Chief of the Lithographic Division, and about 60 other employees. The Filipino field personnel consists of 1 hydrographic and geodetic engineer, 1 civil engineer, 6 cadets, and about 72 men. The cadets are undergoing training and are assisting in the surveying operations with a view to qualifying them for responsible positions. The civil engineer of the bureau is in the United States on a scholarship pursuing studies in aerial mapping and geodesy at Syracuse University.

The basic work of the bureau is the survey of the coastal waters of the Philippine Islands. The product is the nautical chart used by mariners. The data collected are used by many agencies. To provide maximum usefulness the control surveys should be extended into the interior of the islands as proposed in connection with the general mapping program which has been submitted for consideration to the National Assembly.

A series of topographic maps and aeronautical maps are issued. These are compiled from information largely derived from outside sources, since the bureau confines its topographic surveys to a comparatively narrow strip of land along the coast.

Another activity of the bureau is the production of special maps for various governmental agencies. Extra personnel has been employed for this work, their salaries being paid by the bureaus concerned. The personnel thus trained may be used in the future in connection with the mapping program of the interior.

To meet more fully the requirements of the expanding mapping activities, the bureau has further augmented its equipment during 1938 by the installation of a 40- by 40-inch camera and a high-speed offset printing press.

It is again recommended that steps be taken by the Commonwealth to expedite the moving of this bureau to a safe and more accessible building. The use of the wooden structure at Engineer Island exposes the costly plant to a serious fire hazard.

The *Pathfinder*, after having been laid up for several years, was commissioned and engaged in field work from May 6, 1938, to June

30, 1939. The *Fathomer* was placed in decommissioned status during this time, but will be put into service again in July 1939. The principal surveys during the period were made in the uncompleted areas off the west coast of Palawan. During the months of November and December 1938 a supplementary survey was made of Verde Island Passage, including North and South Pass.

Bureau of the Census.—Mr. Ray Hurley, detailed from the United States Bureau of the Census, continued to assist and advise the Commonwealth government in connection with the general census. During 1938 all census questionnaires were revised by Mr. Hurley. The census will cover population, agriculture, mining, commerce, manufacturing, transportation, fishing, electric light and power, and forestry. The preliminary count showed the population of the Philippines to be 15,984,247 on January 1, 1939. Early in 1939 a census organization was formed comprising more than 600 employees and the personnel trained by Mr. Hurley for the compilation and preparation for publication of the data gathered in the census. Tabulation of the census data is being rapidly completed. It is expected that all data will be published during the next 12 months. This census is the third taken since American occupancy of the islands; the first was taken in 1903, the second in 1918.

Department of Labor

Immigration and Naturalization Service.—Mr. Irving P. Wixon, Deputy Commissioner of Immigration and Naturalization, arrived December 12, 1938, to act as special adviser to the Commonwealth on matters affecting immigration. Mr. Wixon left Manila on June 26, 1939.

United States Veterans' Administration

The office of the United States Veterans' Administration in the Philippines is under Col. Harry T. Herring. There are 4,042 veterans, of whom approximately 600 are Americans, and 2,555 death cases of widows, children, and/or dependent parents of deceased veterans receiving benefits, under the jurisdiction of the administration. During the fiscal year benefits paid in the form of pension, compensation, insurance and adjusted compensation totaled \$3,186,379.00. In addition to this sum, the Manila office of the Veterans' Administration disbursed \$89,577.41 for office operating expenses and expenses incurred in connection with the hospitalization, physical examination, out-patient treatment, and burial of veterans entitled to the benefits. The wide distribution of \$3,275,956.41 a year in the Philippines has a beneficial effect on the general economic and social life.

It has come to the attention of this office that although a Filipino soldier on active duty receives much less pay than an American soldier, the Filipino soldier receives the regular United States pension or compensation. The result is that the pension or compensation received by a Filipino soldier is greater than his active service pay. It would seem that this illogical situation should be corrected by congressional action.

The Manila office of the Veterans' Administration is very poorly located in an old building in the most congested part of Manila. It is

again recommended that the Commonwealth provide centrally located suitable quarters for the United States Veterans' Administration.

V. United States Laws Administered by the Commonwealth

Consular duties relative to seamen, vessels, clearances and similar matters.—Among the duties of collectors of customs in the Philippines are those required by section 1155 of the Philippine Administrative Code, as follows:

SEC. 1155. *Performance of consular duties.*—For the accomplishment of the laws of the United States, a collector of customs shall perform in his district the duties relative to seamen, vessels, clearances, and similar matters, which under the laws of the United States devolve on American consuls or consular officers; and he shall collect for such services the fees allowed under the United States laws, when the same shall have been approved and declared applicable in the Philippine Islands by the Insular Collector of Customs.

In the annual report of this office for the year 1937 the following appears, and the situation remains unchanged at the date of this report:

Collectors of customs of the Commonwealth government are still required by law to perform many duties in respect to American seamen, vessels, consular invoices, certificates of origin, etc., which are elsewhere in the United States and its possessions performed by Federal officers. As the matter now stands, the men performing these tasks in the Philippines are not personally responsible to, nor inspected by, any Federal officer. While there is no reason at this time to doubt that the local officers have faithfully performed these duties, the situation is an administrative anomaly.

It is recommended that the State Department study the advisability of covering with Foreign Service officers the consular duties now performed by Commonwealth collectors of customs. At least, provision should be had for inspection and control of services in this category.

Immigration Service.—The ruling immigration law of the Philippines is the act of Congress of February 5, 1917, which contains a provision that the law shall be enforced in the Philippines by officers of the general government thereof until it is superseded by an immigration act passed by the Philippine Legislature and approved by the President of the United States.

During the years numerous complaints against procedures in the enforcement of the immigration laws were made to this office. In many cases these complaints would not have occurred had the local government been in a position to issue regulations adapted to conditions. Enforcement had not been improved by the transfer of the immigration service from the Philippine Bureau of Customs to the Philippine Department of Labor. The situation called for investigation and reorganization which it appeared could only be advanced by bringing to the Philippines immigration experts from the United States. The subject was placed in conference with President Quezon. As a result, President Quezon requested that 2 men, 1 from the Department of Labor and the other from the Department of State, be detailed to the Commonwealth for the purpose of recommending steps for the reorganization of the service and drafting a general immigration bill. At the same time President Quezon ordered an investigation of the immigration service which resulted in the suspension of 23 officers and employees and the prosecution of 4.

Mr. Irving P. Wixon, Deputy Commissioner of Immigration and Naturalization, Department of Labor, and Mr. George L. Brandt,

Foreign Service officer, State Department, arrived in Manila on December 12, 1938. In addition to valuable and acceptable recommendations for the reorganization of the service, these men in consultation with appropriate officers of the Commonwealth government drafted a general immigration bill designed to supersede the United States Immigration Act of 1917. The draft of the proposed bill was given to President Quezon. As of June 30, 1939, final action had not been taken.

VI. Matters Affecting American Interests

Income tax situation.—When I took up my duties as High Commissioner in April 1937, one of the first delegations that called on me was composed of American businessmen who informed me of the disadvantage at which they were placed in their competition with foreign firms doing business in the Philippines by the operation of United States income tax laws.

Two major difficulties were presented. The first was the matter of back taxes corresponding to the years 1917, 1918, 1919, and 1920, when taxes were levied on the entire incomes of resident Americans. In the Revenue Act of 1921 (act of November 23, 1921, ch. 136, 42 Stat. 227) Congress relieved the burden by the enactment of section 262, which provides as follows:

SEC. 262. (a) That in the case of citizens of the United States or domestic corporations, satisfying the following conditions, gross income means only gross income from sources within the United States—

(1) If 80 per centum or more of the gross income of such citizen or domestic corporation (computed without the benefit of this section) for the three-year period immediately preceding the close of the taxable year (or for such part of such period immediately preceding the close of such taxable year as may be applicable) was derived from sources within a possession of the United States; and

(2) If, in the case of such corporation, 50 per centum or more of its gross income (computed without the benefit of this section) for such period or such part thereof was derived from the active conduct of a trade or business within a possession of the United States; or

(3) If, in the case of such citizen, 50 per centum or more of his gross income (computed without the benefit of this section) for such period or such part thereof was derived from the active conduct of a trade or business within a possession of the United States either on his own account or as an employee or agent of another.

(b) Notwithstanding the provisions of subdivision (a) there shall be included in gross income all amounts received by such citizens or corporations within the United States, whether derived from sources within or without the United States.

(c) As used in this section the term "possession of the United States" does not include the Virgin Islands of the United States.

Efforts to make this section retroactive to 1917 were unsuccessful. In the meantime many Americans here relied upon further efforts to obtain relief. The Bureau of Internal Revenue failed to maintain an office in the Philippines, to distribute blank returns, or, indeed, to make any reasonable effort for collection from the rank and file of American citizens. These persons came to believe that collection would never be pressed. On December 6, 1936, an agent of the Bureau of Internal Revenue opened an office in Manila and proceeded to make strenuous efforts for immediate collections of all back taxes together with interest and penalties.

The second difficulty concerned the interpretation of those sections of the revenue acts and pertinent regulations under which a tax was imposed on income derived from sales of United States products in the Philippines and Philippine products in the United States. Whatever tax was imposed on American merchants under this law and these regulations constituted a discrimination against them as compared with foreign merchants resident here and doing business with their countries, who pay no similar tax.

One of the purposes of my visit to the United States was to place this matter in its true light before the authorities concerned, with a view to correction. I was pleased to find throughout the administration at Washington, both in the executive departments and in Congress, a sympathetic hearing of the case for American citizens in the Philippines and a willingness to correct inequities.

I am very glad to report that upon the recommendation of the Secretary of War and with the invaluable support of Senator Pat Harrison, Chairman of the Senate Committee on Finance, and other Members of Congress, notably Senators Minton and Gibson and Representative A. Willis Robertson of the House Ways and Means Committee, amendments were proposed to the pending revenue bill which, if they had all been adopted, would have entirely corrected the discriminations against Americans. These amendments included a proposal to remit taxes corresponding to the years 1917, 1918, 1919, and 1920. This failed of adoption in the Senate Finance Committee by a very narrow margin in favor of a compromise whereby these taxes continue payable, but all interests and penalties are remitted and a reasonable time is allowed for payment of the principal.

In addition to the above stated compromise, which is embodied in section 813 of the Revenue Act of 1938, there are two other sections which affect Americans in the Philippines. Section 812 provides that profits from the sale of merchandise purchased in the United States and sold in the Philippines constitute gross income from sources in the Philippines. The old law which is amended by this section considered these profits as derived partly from sources in the United States and partly from sources in a possession. This amendment is retroactive to the beginning of the levy and therefore affords complete correction of the discrimination formerly existing against American merchants.

Section 821 reduces the rate of interest on income, estate, and gift tax delinquencies accruing from October 23, 1933, to August 20, 1935, from 12 percent to 6 percent.

Batangas Transportation Co.—The annual report for 1937 contained an account of the establishment and operation by the Manila Railroad of bus lines in competition with the Batangas Transportation Co. Most of the stock of the latter company is owned by resident Americans. Because of legislation exempting the Manila Railroad Co. from the supervision of the Public Service Commission, the railroad company operates bus lines over routes covered by exclusive certificates of public convenience issued to private firms by the Public Service Commission. This competition was resisted in the courts by the Batangas Transportation Co. without success. At the close of 1937 the company was preparing an application for a writ of certiorari to the Supreme Court of the United States. The writ was denied on technical grounds.

Stockholders of private bus lines consider this competition by a government-owned company very unfair.

Public accountancy law.—Philippine legislation regulating the practice of public accountancy has had a nationalistic tendency for some years, the object being to protect Filipino accountants from competition with American and foreign public accounting firms. Consideration has been given to resident Americans and foreigners by extending from time to time, by amendments to the law, the period during which they might be admitted to practice. One of these amendments penalized partnerships or corporations, all the members of which had not qualified as public accountants, to practice in the Philippine Islands. However, up to 1937 this amendment had not been invoked. During 1937 it was called up against one American and two British firms.

During 1938 various amendments were proposed in the assembly looking toward the continued protection of Americans and foreigners practicing in the Philippines by extending the time during which they might be admitted to practice; by repealing the above mentioned prohibition against firms having nonresident members; and by a new provision permitting firms to practice under the "trade names" of persons no longer taking part in the business. The amendments were passed by the assembly over the protests of Filipino accountants and became Act 342.

Titles to mining claims.—Before the Constitution of the Philippines went into effect, the laws with respect to the acquisition of mining claims were similar to those of the United States. In other words, after certain legal requisites were observed, title was given by the issuance of a government patent; ownership was private.

This was changed by the Constitution of the Philippines which in article XII, section 1, prohibited the alienation of natural resources, except public agricultural land. The Constitution further provided that all mineral lands shall belong to the State. The disposition, exploitation, development, or utilization of mineral lands was limited to citizens of the Philippines (and by analogy to citizens of the United States), or to corporations or associations at least 60 per centum of the capital of which was owned by such citizens, "subject to any existing right. * * * at the time of the inauguration of the Government established under this Constitution."

A number of mining claims were in process of patent when the Constitution went into effect. The Commonwealth government stopped the process coincident with the effective date of the Constitution.

Mandamus suits were brought by a number of persons and mining corporations who, before the Constitution went into effect, had complied with part or all of the legal requirements, to compel the issuance of patents. One case was *Gold Creek Mining Corporation v. the Honorable Eulogio Rodriguez, Secretary of Agriculture and Commerce, and Quirico Abadilla, Director of the Bureau of Mines*. It was decided by the Supreme Court of the Philippines on September 28, 1938, in favor of the petitioner, with Mr. Justice Concepcion dissenting. The Court, speaking through Mr. Justice Abad Santos, explained that:

This is one of several case now pending in this Court which call for an interpretation, a determination of the meaning and scope, of section 1 of article XII

of the Constitution, with reference to mining claims. The cases have been instituted as test cases, with a view to determining the status, under the Constitution and the Mining Act (Commonwealth Act No. 137), of the holders of unpatented mining claims which were located under the provisions of the act of Congress of July 1, 1902, as amended.

The ruling of the Court, as announced in the syllabus of the decision, reads in part as follows:

CONSTITUTIONAL LAW; CONSTRUCTION OF CONSTITUTIONAL PROVISIONS; SECTION 1 OF ARTICLE XII OF THE CONSTITUTION CONSTRUED.—It is clear that section 1 of article XII of the Constitution prohibits the alienation of natural resources, with the exception of public agricultural land. It seems likewise clear that the term "natural resources," as used therein includes mineral lands of the public domain. The reason for this conclusion is found in the terms of the provision itself. It first declares that all agricultural, timber, and mineral lands of the public domain, etc., and other natural resources of the Philippines, belong to the State. It then provides that "their disposition, exploitation, development, or utilization shall be limited to citizens of the Philippines, or to corporations or associations, at least sixty per centum of the capital of which is owned by such citizens, subject to any existing right, grant, lease, or concession at the time of the inauguration of the Government established under this Constitution." Next comes the prohibition against the alienation of natural resources. This prohibition is directed against the alienation of such natural resources as were declared to be the property of the State.

Id.; Id.; Id.; MINERAL LANDS NOT COMING WITHIN CONSTITUTIONAL PROHIBITION; LEGAL EFFECT OF LOCATION OF MINING CLAIM PERFECTED PRIOR TO INAUGURATION OF GOVERNMENT OF COMMONWEALTH.—As only "agricultural, timber, and mineral lands of the public domain" were declared property of the State, it is fair to conclude that mineral lands which at the time the constitutional provision took effect no longer formed part of the public domain, do not come within the prohibition. It is not disputed that the location of the mining claim under consideration was perfected prior to November 15, 1935, when the Government of the Commonwealth was inaugurated; and according to the laws existing at that time, as construed and applied by this Court in *McDaniel v. Apacible et al.*, 42 Phil 749, a valid location of a mining claim segregated the area from the public domain. The legal effect of a valid location of a mining claim is not only to segregate the area from the public domain, but to grant to the locator the beneficial ownership of the claim and the right to a patent therefor upon compliance with the terms and conditions prescribed by law. As the mining claim under consideration no longer formed part of the public domain when the provisions of article XII of the Constitution became effective, it does not come within the prohibition against the alienation of natural resources; and the petitioner has the right to a patent therefor upon compliance with the terms and conditions prescribed by law.

Mr. Justice Laurel in concurring opinion reached the following conclusion:

A perfected location of a mining claim is an "existing right" within the purview of section 1, article XII, of our Constitution. It is a substantial property right and permits the locator to take all the necessary steps leading to the issuance of a patent. It is not contingent or expectant because contingency or expectation is neither property nor property right. It is a legal right in the sense that it is recognized by law and acknowledged by the Constitution. And recognition implies protection. This recognition is not mere graciousness but springs from the just character of the government established. The framers of the Constitution were not obscured by the rhetoric of democracy or swayed to hostility by an intense spirit of nationalism. They well knew that conservation of our natural resources did not mean destruction or annihilation of acquired property rights. Withal, they erected a government neither episodic nor stationary but well-nigh conservative in the protection of property rights. This, notwithstanding nationalistic traits discoverable upon even a sudden dip into a variety of provisions embodied in the instrument.

A motion for reconsideration interposed by the Solicitor General on behalf of the Commonwealth government was denied without ex-

planatory resolution. Therefore, the question arose as to whether or not the case should be appealed to the Supreme Court of the United States. In a communication dated November 28, 1938, from the President of the Philippines to the Solicitor General, the President announced that no decision of the Supreme Court of the Philippines against the Government of the Commonwealth will be appealed to the Supreme Court of the United States. The cited communication is deemed so important that it is quoted in full:

NOVEMBER 28, 1938.

MY DEAR SOLICITOR GENERAL: Upon coming to the office today after my illness, the first matter presented to me was your letter, dated November 22, 1938, forwarded by the Under Secretary of Justice, requesting me to have the case of *Gold Creek Mining Corporation v. The Secretary of Agriculture and Commerce and the Director of Mines* appealed to the Supreme Court of the United States.

I do not want to lose any time in expressing to you my very strong conviction that the Government of the Commonwealth should, both as a matter of principle and as a matter of policy, accept the decisions of the Supreme Court of the Philippines as final. Under the Constitution of the Philippines, the Supreme Court is the highest tribunal of the land and its decisions are final, except as they may be reviewed by the Supreme Court of the United States in certain specified cases. But even in those few cases the intervention of the Supreme Court of the United States is temporary and may only be exercised until 1946, or prior to the establishment of the Philippine Republic.

We have, time and again, avowed our faith in our ability to establish and maintain an independent government. The postponement of the establishment of an independent Philippine Republic was not due to any idea that we required further education in self-government or the continued supervision by the Government of the United States over any of the branches of the Government of the Philippines, but only to the consideration that time was necessary to permit the Filipino people to adjust their national economy to the responsibilities of an independent existence. If we are going to accept the decisions of the Supreme Court of the Philippines after 1946 as final, because we have faith in our Supreme Court and in the integrity and ability of its members, we should show that faith now. I, for one, have that faith in our Supreme Court and as long as I am the President and can help it, no decision of that Court against the Government of the Commonwealth will be appealed to the Supreme Court of the United States. Let private individuals or private interests, if they so desire, take advantage of their right to appeal their cases to the Supreme Court of the United States; let others follow the same course, but not the Government of the Commonwealth.

I am not unmindful of the material interests involved in the Gold Creek case, but over and above such material considerations, no matter how vast they may appear to be, I consider more vital the principle that the Filipino people should show their faith and confidence in their own Supreme Court.

It is, therefore, my desire that no appeal be taken from the decision of the Supreme Court in the Gold Creek Case.

Sincerely yours,

MANUEL L. QUEZON,
President of the Philippines.

HON. ROMAN OZAETA,
Solicitor-General, Manila.

This Supreme Court decision is an unequivocal interpretation of section 1, article XII, of the Philippine Constitution, and the fact that it has now become final ends the disputes between government officials and owners of mining claims as to the status of claims in process at the date the Philippine Constitution went into effect.

VII. The Commonwealth Government

Personnel

The government service is attractive to the Filipino people by reason of the high salaries paid, which are manyfold the income of

the average citizen. Filipino voters are held in party or factional loyalty insofar as the leaders can reasonably satisfy the popular desire for government jobs.

One of the reforms proposed by the Commonwealth government soon after its establishment was a reorganization of the governmental machinery in the interest of economy. Such reform has not been realized. The following statement shows the amounts expended for salaries and wages during the first 3 years of the Commonwealth as compared with 1935:

1935-----	₱24, 755, 917. 18
1936-----	25, 569, 492. 17
1937-----	32, 206, 347. 76
1938-----	38, 579, 676. 11

These figures reflect only the disbursements in the central government and do not include the very large and constantly increasing salary lists of the government-owned corporations.

Reorganization of the Cabinet.—In conformity with section 77 of the Administrative Code which provides that department secretaries shall be appointed at the beginning of each new legislature, President Quezon announced in September 1938 his intention to reorganize his cabinet following the assembly elections in November. On September 27 he accepted the resignations of Hon. Jose Yulo, Secretary of Justice, and Hon. Elpidio Quirino, Secretary of the Interior, to enable them to be candidates for election to the assembly.

Soon thereafter Hon. Sergio Osmeña, Vice President, resigned his portfolio as Secretary of Public Instruction, and Hon. Antonio de las Alas resigned as Secretary of Finance. On October 27, Hon. Ramon Torres vacated the position of Secretary of Labor. This left five cabinet positions vacant and President Quezon assumed control of the five departments, administering their affairs through the under secretaries although not designating any of the under secretaries as acting secretary.

On November 15, the remaining three members of the cabinet, Hon. Eulogio Rodriguez, Secretary of Agriculture and Commerce, Hon. Mariano Cuenco, Secretary of Public Works and Communications, and Hon. Jorge B. Vargas, Secretary to the President and member without portfolio, tendered their resignations in conformity with the requirement of law.

A new cabinet was completed on December 1, as follows:

Rafael Alunan, Secretary of the Interior.
 Manuel Roxas, Secretary of Finance.
 Jose Abad Santos, Secretary of Justice.
 Benigno Aquino, Secretary of Agriculture and Commerce.
 Mariano J. Cuenco, Secretary of Public Works and Communications.
 Manuel L. Quezon, Secretary of Public Instruction.
 Hermenegildo Villanueva, Secretary of Labor.
 Jorge B. Vargas, Secretary to the President and Cabinet Member without portfolio.

On April 21, 1939, President Quezon accepted the resignation of Jorge Bocobo as President of the University of the Philippines and appointed him Secretary of Public Instruction.

President Quezon's Trips

President Quezon left Manila on April 30, 1938, for Hong Kong, returning on May 7. Soon after his return, I accompanied President

Quezon to the Bicol region to assist in the inauguration of the opening of the section of the Manila Railroad connecting the Bicol lines with the Southern lines.

From August 23 to September 4 President Quezon made an inspection trip to the Southern Islands with special attention to Mindanao and Sulu. By invitation of President Quezon, Mr. Wayne Coy, administrative assistant, was a member of the party.

Trip to Japan.—On June 24, 1938, President Quezon sailed for Japan on a Japanese freighter. On arrival in Japan, the following statement was given to the press:

President Quezon has come to Japan for the sole purpose of taking a short vacation. He will remain in this beautiful country for 10 days and will visit some of your best known summer resorts. He has chosen to make his voyage on a freighter and is returning on another freighter because he is shunning all social affairs that may interfere with his much needed rest. The party had a most enjoyable trip across. President Quezon is very glad to be in Japan once more.

The members of the President's party are Major Hutter, United States Army, his physician; Major Nieto, aide-de-camp; and Mr. Canceran, his stenographer. Also traveling with the President are Assemblyman Buencamino, Chairman, Committee on Agriculture of the Assembly; and Dr. Fabella, Commissioner of Health.

President Quezon and his party will spend the day in Kobe and will proceed tomorrow to Hakone. From there he will go to Tokyo to leave his card at the Foreign Office and the American Embassy and visit General Reyes at the hospital. From Tokyo he will go to Nikko, well known summer resort and from Nikko to a hot spring near Nagasaki till the tenth of July, when he will sail back for Manila.

Osmeña Mission

Vice President Sergio Osmeña accompanied by Mr. Antonio de las Alas left on October 16, 1938, on an official mission to the United States for the purpose of helping to obtain favorable legislative action upon the report of the Joint Preparatory Committee on Philippine Affairs.

Religious Instruction Bill

Bill No. 3307 on religious instruction in the public schools caused excitement both in the legislature and outside. The Philippine Constitution imposes the following limitation on religious instruction:

Optional religious instruction shall be maintained in public schools as now authorized by law. (Art. XIII, sec. 5.)

The law on the subject at the time the Constitution was adopted is contained in section 928 of the Administrative Code, as follows:

It shall be lawful, however, for the priest or minister of any church established in the town where a public school is situated, either in person or by a designated teacher of religion, to teach religion for one-half hour three times a week, in the school building, to those public-school pupils whose parents or guardians desire it and express their desire therefor in writing filed with the principal teacher of the school, to be forwarded to the division superintendent, who shall fix the hours and rooms for such teaching.

The purpose of bill 3307 as originally submitted to the assembly may be understood by quoting the first two sections:

SEC. 1. There shall be included in the curriculum of all the public schools of the Philippines, from the lowest grade to the highest year of the high or vocational school, inclusive, under the direct supervision of the school authorities, a course in character building and good manners and right conduct. This course

shall be a required subject, scheduled during regular school hours, and instruction therein shall be given for one-half hour three times a week throughout the academic year. * * *

SEC. 2. Where any religious organization or organizations are in a position to offer religious instruction with their own instructors, and at no cost to the government, parents or guardians of minor children under parental authority in public schools shall, upon written request filed with the principal teacher of the school, have the right to have their children excused from the instruction in character building and good manners and right conduct as provided in section one hereof, and on the condition that said children attend the religious instruction offered by the religious organization or organizations chosen by their parents, all in accordance with the law.

To establish religious instruction as an *obligatory* subject apparently would conflict with the limitation imposed by the Constitution. The bill provoked a prolonged and acrimonious debate in the legislature.

Under opposition, the bill was modified and passed by the assembly. The President of the Commonwealth vetoed the bill. The text of the bill passed together with President Quezon's veto message is given in appendix B.

New Policy for Support of Schools

The original plan for school support had envisioned three general classes of schools: (1) Municipal primary and intermediate schools supported by a percentage of the land tax, half the so-called cedula tax, and such additional funds as the municipal councils might vote out of their general fund; (2) provincial secondary schools (general high schools) and trade schools (mostly woodworking schools of intermediate grade) supported by provincial funds; and (3) insular normal and trade, commercial, nautical and other special schools of secondary grade supported by appropriations. In addition the central government supported the cost of superintendence and supervision, and a number of principals, head teachers, and all American and some high ranking Filipino classroom and special course teachers. The system worked excellently from the fiscal side, but resulted in uneven efficiency of lower schools. Municipalities with relatively large revenues were able to provide the funds necessary for expansion of classes to meet the rapid increase of school population. Poorer municipalities and those which declined to vote grants from their general funds fell behind in their educational facilities. As the central government held firm control over curricula and teacher qualifications, the deterioration was more in the quantity than in quality of educational opportunity.

For the past 20 years there had occurred repeated school "crises" in an increasing number of municipalities. The situation had been met by conditional grants by the central government. The depression from 1929 to 1936, coupled with delinquencies in payment of the land tax, showed a serious decline in municipal revenues, and a rapid increase in insular aid to municipal schools. With the abolition of the cedula tax, Act 238, conditions of local school support became genuinely critical. Appropriation to the municipalities of amounts equivalent to previous cedula collections, Acts 241 and 375, were but temporary measures.

The first effort at permanent solution was the enactment in August 1938 of Act 381. The act provided that:

(1) The central government shall support all public primary schools (grades 1 to 4).

(2) Local governments shall support intermediate schools (grades 5 to 7), devoting thereto all local government school funds derived from the real estate tax, the internal revenue allotment, and from other sources: *Provided, however*, That the central government may aid in the support of intermediate schools during the school year 1939-40 only in instances of justifiable inability of the local government concerned to provide the required support.

(3) Local governments may, by vote, levy a school tax of ₱2 on all inhabitants of both sexes between the ages of 18 and 60, inclusive, for the support of intermediate schools.

(4) The city of Manila shall continue to appropriate for all school purposes not less than the average amount appropriated during the previous 3 years.

(5) Local governments, including the city of Manila, shall continue to provide sites for all types of schools.

The permissive tax feature did not materialize, as only a few municipalities voted the levy. It became an issue in the 1938 assembly election campaign. It was reported that the country people generally declined to vote the permissive tax and, indeed, asked for its repeal. Their opposition was influenced by the circumstance that the municipal intermediate schools are located in the *poblaciones*, or central villages, where they are readily accessible to the children of the professional, land-owning, merchant, and craftsman classes, but not available to the children of the farmers who live in the *barrios*, or scattered hamlets.

There was the further circumstance that by declining to vote the permissive tax, the burden could be put again squarely on the shoulders of the central government.

Labor Conditions

During the period covered by the present report there was an increase in both labor and agrarian unrest. During the calendar year 1938, according to the Department of Labor, 21,000 men were involved in "strikes and other industrial disputes," as compared with 4,500 in 1937. The principal demands were for increased wages, shorter hours, or greater premium for overtime. All disputes were settled without serious violence. Many local unions committed sabotage, and broke employer contracts. Labor leadership remained in contest between factions and union attorneys, with little responsibility evident, in spite of the efforts of the Department of Labor to centralize and influence control. The Court of Industrial Relations was set up early in 1938. Its activities have served to prevent violence, but to retard settlements. Its availability has probably been responsible for the larger number of persons involved in the strikes.

The spread of agrarian unrest has been more serious than urban labor disputes. All efforts on the part of the Commonwealth government to obtain settlements of tenancy troubles in Bulacan and Pampanga Provinces have been of little avail. A counter-organization set up by the Governor of Pampanga is in its infancy, but is clearly unacceptable to radical leaders. Basic faults in the technique of agriculture, extreme parcelling of the land, resulting in tenant holdings too small for family subsistence, absentee-landlordism, and a perhaps socially premature abandonment of the paternalistic fea-

tures of the *kasama* system, are the accountable roots of this very serious problem. The government's general idea of purchase, redivision, and sale of large estates to the tenants presents difficulties in: (1) financial costs; (2) demands of tenants that their holdings be given instead of sold to them, or that annual payments be reduced to an impossible minimum; and (3) the question of partial eviction should the redivision be by subsistence-adjusted lots.

While the present administration of the central government has proclaimed widely the extension of a "social justice program" to include tenant and small-scale farmers, and has passed some meritorious laws, it has been unable, through lack of money, personnel, and the inertia of a traditional system, to arrive at a program for definite solution. Meanwhile, agrarian leaders, those of sincerity as well as many acting from motives of personal profit, have organized numerous country societies, some of which are so radical as to appear subversive of government itself. The problem is perhaps the most fundamental and serious of the many which now confront the Commonwealth.

Political Affairs

The assembly elections.—The event in the realm of politics which dwarfed all others in importance during the period was the campaign for election to the National Assembly. The terms of all members of the assembly are for 3 years, and close at the same time.

President Quezon publicly announced that he hoped for the reelection of at least a majority of the assemblymen, stating that he would regard such result of the election as an endorsement of his administration. This declaration established a policy for the campaign committee of the Nationalist Party.

The central organization of the party proceeded to name official candidates in all districts except in a few where there was strong factional competition; these districts were declared "free zones." By the end of September an official candidate had been proclaimed in each of 74 assembly districts. Of these, 64 were candidates for reelection, and 10, including Mr. Yulo and Mr. Festin, were not members of the assembly. There were 18 assemblymen running for reelection in the 24 "free zones."

There was no substantial opposition to the candidates of the Nationalist Party in 92 of the 98 assembly districts. In 6 of the districts the situation was as follows:

District of Cotobato: two Nationalists and two independents;

First District of Manila: one Nationalist, one Popular Front and one Democrat;

Second District of Manila: one Nationalist, one Popular Front and one Radical;

Second District of Pampanga: one Nationalist, and one Popular Front;

Second District of Rizal: one Nationalist and one Popular Front;

District of Zamboanga: one Nationalist and one Accion Patriotica.

The campaign issues developed around the personalities of the candidates, defense of the administration of President Quezon, the proposal to amend the constitution to allow a second presidential term, and, particularly in Pampanga, radical issues involving reform of land tenure and improvement of social conditions.

The election was held on November 8, 1938, and resulted in a complete victory for the party in power. No opposition candidate was

successful. Mr. Jose Yulo, formerly Secretary of Justice and candidate from a district in Negros, was successful and was elected Speaker of the Second National Assembly.

Return of Benigno Ramos from Japan.—Mr. Benigno Ramos, head of the Sakdal Party and who had been residing in Japan for some years, returned voluntarily to Manila in August 1938. He was wanted in the Philippines for trial for instigating the Sakdal uprising on May 1, 1935, in which 60 persons were killed and many more wounded in armed clashes between Sakdals and the Constabulary. On arrival he was put under arrest and subsequently released on bail. He then announced that his political views had changed from an anti-administration position to that of a loyal follower of President Quezon. In spite of this, he said that he would reform the Sakdal Party and put it in position to take part in the November assembly elections.

In order to avoid the effect of standing prohibitions against meetings of the Sakdal Party he changed the name of the party to "Partido Ganap." This was followed by Ramos's later attempt to effect a fusion of the Sakdal and Nationalist Parties in urging his followers to support the Nationalist candidates and explaining that the Sakdal Party and the Nationalist Party had common purposes. While his efforts were doubtless successful in reducing opposition to the Nationalist Party candidates in the regions near Manila, the *Partido Ganap* continued in a precarious position with some of its members joining factions allied with the Popular Front and Democrata Parties.

During the rest of the period under report, Benigno Ramos fought a losing battle in the courts to clear himself of sedition in connection with the Sakdal uprising and of various charges of misappropriation of funds provided by his followers.

National Assembly

The First National Assembly met three times during the year 1938: Third regular session, January 24 to May 19, 1938; fourth special session—in fact, an extension of the third regular session—May 23 and 24; and fifth special session, July 25 to August 15. The Second National Assembly was elected November 8, 1938, took office January 1, 1939, and as of the terminal date of this report had held its first regular session, January 23 to May 18, 1939.

Third regular session.—President Quezon was prevented by illness from personally communicating an opening message and he announced that he would make specific recommendations from time to time. At a press conference, during the first week of the session, he outlined the administration's legislative program as follows:

1. A minimum wage law wherein the rates of compensation should be determined by the nature of the industry and its location.
2. A tax on sugar central profits, graduated downward in proportion to the share which the central gives the farmer of profits earned.
3. A land administration law designed to solve certain phases of the agrarian problem by providing for a more efficient system of administration and distribution of public lands by the government.
4. A measure to authorize him to contract for the development of Philippine oil fields by American or Philippine corporations.
5. Revision of the Philippine system of public instruction to emphasize national unity and patriotism.

6. Revision of the system of taxation with a view to shifting a greater incidence to the rich.

7. A 4-year program of public works featuring the construction of national highways, barrio roads, and a general program of sanitation.

The approved legislation of the third regular session consisted of 51 acts and 4 bill submitted to the President for action as follows:

Act 254, approved and effective March 4, 1938, increased the number of judges in the court of industrial relations from one to three and appropriated ₱55,000.

Act 255, approved and effective March 9, 1938, amended section 2158 of the Administrative Code to repeal and condone all delinquencies in the roads and public works tax in the Mountain Province and the Province of Nueva Vizcaya.

Act 256. (See p. 68.)

Act 257, approved and effective March 25, 1938, pending approval of an appropriation for pulic works recommended by the President of the Commonwealth in a message to the National Assembly, released 40 per centum of ₱92,271,800. (The bill referred to eventually became Act 330 carrying a total appropriation of ₱96,351,300.)

Act 258, approved and effective March 31, 1938, granted the Ilagan Electric & Ice Plant, Inc., an extension of 30 days during which to comply with certain conditions of its franchise awarded by the Philippine Legislature under Act 3194.

Act 259, approved and effective April 7, 1938, increased the membership of the Court of Appeals, expanded its jurisdiction, increased the salaries of the judges, diminished the jurisdiction of the Supreme Court, and appropriated for its purpose ₱90,000.

Act 260, approved and effective April 18, 1938, amended Act 20 to provide an additional ₱2,000,000 from coconut oil excise tax funds for the purchase of home sites on large landed estates.

Act 261, approved and effective April 21, 1938, amended section 567 of the Administrative Code and authorized the President of the Commonwealth to delegate the duty of signing land patents and similar documents.

Act 262, approved and effective April 21, 1938, authorized Maj. Gen. Basilio J. Valdes, Deputy Chief of Staff of the Philippine Army, to accept the orders of Officer of the Order of the Belgian Crown and Commandeur du Dragon de l'Annam, and Capt. Ciriaco Carillo, Philippine Coast Guard Service, to accept the order of the Chevalier of the Order of the Belgian Crown.

Act 263, approved and effective April 21, 1938, authorized Felipe Cuaderno, Assistant Director of Posts, to accept a decoration conferred upon him by the King of Egypt.

Act 264, approved and effective April 22, 1938, amended articles 143 to 145 of the Revised Penal Code by prescribing penalties for acts tending to prevent the meetings or disturbing the proceedings of the National Assembly or any of its committees, commissions, or divisions thereof, or of any provincial board or city or municipal council or board, and for violation of parliamentary immunity.

Act 265, approved and effective May 20, 1938, granted exclusive postal and telegraph franking privileges to the Census Commission.

Act 266, approved and effective May 20, 1938, appropriated ₱1,300,000 "for the relief and rehabilitation of such communities and, or, indigent persons as may have suffered or may suffer from typhoons,

floods, or other public calamities, and for the succor of persons who are in distress due to unemployment, and other persons found deserving of material aid"; the fund to be expended in the discretion of the President of the Commonwealth.

Act 267, approved and effective June 2, 1938, amended section 61 of Act 1 to enable the President of the Commonwealth to appoint two or more alternate members to sit with the five regular members on Philippine Army Acceptance Boards.

Act 268, approved and effective June 2, 1938, further amended section 1 of Act of the Philippine Legislature 3597 in such manner as to make its continuing appropriation of ₱25,000,000 available at the rate of ₱2,000,000 a year for further construction of government buildings, including the official residences of the President of the Commonwealth in Manila and Baguio (Malacañan Palace and Mansion House).

Act 269, approved and effective June 2, 1938, amended section 1936 of the Administrative Code to increase the amount that may be transmitted in one day by one person by telegraphic transfer between post offices in the Philippines from ₱2,000 to ₱5,000.

Act 270, approved and effective June 2, 1938, technically amended section 21 of the Administrative Code prescribing the list of officers of government authorized to administer oaths.

Act 271, approved and effective June 2, 1938, amended Act of the Philippine Legislature 4113 in such manner as to include contract labor on sugar plantations under the tenancy law.

Act 272, approved and effective June 2, 1938, amended sections 91 and 92 of Act 1 to increase the compensation for certain trainees in the Philippine Army.

Act 273, approved and effective June 3, 1938, amended article 310 of the Revised Penal Code to increase the penalties for theft of large cattle.

Act 274, approved and effective June 3, 1938, required the stamping of the shells of imported eggs with the phrase "Imported from (name of country of origin)."

Act 275, approved and effective June 3, 1938, amended section 22 of Act of the Philippine Legislature 2152 to require the Bureau of Public Works to furnish the collector of internal revenue data upon which to charge rental on hydroelectric plants.

Act 276, approved and effective June 3, 1938, authorized under certain conditions the filing in the proper court of claims for title to parcels of land previously declared public land by virtue of judicial decisions rendered within 15 years next preceding the approval of the act.

Act 277, approved and effective June 3, 1938, appropriated and granted the sum of ₱20,000 to the estate of Mariano Buyson Lampa, of Pampanga, Judge of First Instance.

Act 278, approved and effective June 3, 1938, amended section 1946 of the Administrative Code to classify government-printed matter intended for free distribution as second-class mail matter.

Act 279, approved and effective June 3, 1938, granted priority in hearing over ordinary civil cases those cases involving conflicts between capital and labor.

Act 280, approved and effective June 3, 1938, made unlawful and penalized the construction or maintenance of any "cotta" (small fortifications built for shelter or refuge by outlaws).

Act 281, approved and effective June 3, 1938, amended section 682 of the Administrative Code as amended to extend the period of employment of temporary teachers not eligible under civil-service rules.

Act 282, approved and effective June 3, 1938, empowered the President of the Commonwealth to purchase such amounts of United States bonds as may be required by the Secretary of War as a bond for security against the loss, damage, or destruction of military and naval supplies, stores, and equipment loaned to the Commonwealth government.

Act 283, approved and effective June 3, 1938, amended Act 83 to authorize the Securities and Exchange Commission to regulate price pegging in the stock markets.

Act 284, approved and effective June 3, 1938, fixed the minimum indemnity in all cases of civil responsibility for the death of a person at ₱2,000.

Act 285, approved and effective June 3, 1938, abolished the Manila Harbor Board created by Act of the Philippine Legislature 3002 and reverted its balance (of ₱600,000) to the general fund of the government. The act also empowered the Bureau of Customs to exercise the powers and perform the duties of the Manila Harbor Board, and for this purpose appropriated ₱42,500.

Act 286, approved and effective June 3, 1938, authorized the President of the Commonwealth by executive order to extend the territorial limits of the city of Baguio by including therein adjoining municipal districts within the Mountain Province, such action to be valid and subsisting until the National Assembly should provide otherwise.

Act 289, approved June 9, 1938, and effective July 9, 1938, established the "quintal," of 46 kilograms net and 50 kilograms gross weight, as the unit of weight for wholesale and retail trading in unstemmed leaf tobacco in the Philippines.

Act 290, approved June 9, 1938, and effective August 21, 1938, amended Act 83 to include charitable or mutual aid and benefit associations among the associations exempt from the law regulating the sale of securities.

Act 291, approved and effective June 9, 1938, granted the Ocmis Electric Service Co. an extension of 30 days within which to comply with certain conditions of its franchise.

Act 292, approved and effective June 9, 1938, amended sections 45 and 47 of Act 141 to extend the time limit for applications for free patents from December 31, 1938, to December 31, 1946, except in certain specified localities.

Act 293, approved and effective June 9, 1938, amended section 1198 of the Administrative Code to change the personnel and powers of the Board of Marine Inquiry.

Act 294, approved and in part effective June 9, 1939, sections 35 to 40 inclusive effective June 9, 1939, regulated the practice of mechanical engineering in the Philippines, provided for licensing the operating personnel in mechanical plants, and established a Board of Mechanical Engineering Examiners.

Act 295, approved and effective June 9, 1938, authorized the city of Davao to pay ₱822.59 to the city mayor and ₱450.00 to the city treasurer, being salaries covering periods not included in the city budget.

Act 297, approved and effective June 9, 1938, amended section 70 of Act of the Philippine Legislature 4003 as amended by Act 115 to reestablish exclusive fishery privileges granted by municipal councils. (Act 115 had erroneously nullified this authority of municipal councils.)

Act 298, approved and effective June 9, 1938, amended section 2614 (d) of the Administrative Code to place municipalities in special provinces on an equal footing with those in regular provinces in respect to classification and the number of municipal councilors.

Act 299, approved and effective June 9, 1938, amended section 220 of the Administrative Code to increase the salaries of justices of the peace, appropriating for this purpose ₱363,460.

Act 300, approved June 9, 1938, and effective January 1, 1939, except where otherwise stated, the General Appropriation Act for 1939, appropriated a total of ₱75,584,403.40 for operation of the general government during the fiscal year ending December 31, 1939. See also discussion on page 78 in the financial section of this report.

Act 302, approved and effective June 9, 1938, granted the Metropolitan Radio Corporation a franchise to construct, maintain and operate stations for the transmission and reception of wireless messages.

Act 303, approved and effective June 9, 1938, provided for the time of payment of salaries and wages of employees and laborers; prohibited compelling employees or laborers to purchase merchandise from and under conditions prescribed by the employer; and prohibited payment of salaries or wages in tokens or objects other than the legal tender.

Act 304, approved and effective June 9, 1938, appropriated ₱1,000,-000 of the coconut oil excise tax fund for reforestation and afforestation of watersheds, denuded areas, and grass lands.

Act 323, approved and effective June 16, 1938, amended Act of the Philippine Legislature 4166 to permit the use of domestic quota sugar without proportional amount of reserve sugar for the amelioration of total quotas allotted to small centrals and planters.

Act 324, approved June 18, 1938, and effective October 9, 1938, amended Act of Philippine Legislature 3971 to extend the requirements in respect to provision by certain employers of medical facilities for employees and laborers.

Act 325, approved and effective June 18, 1938, transferred the function of auditing books and accounts of public services from the Public Service Commission to the General Auditing Office, and appropriated ₱25,000 for this purpose.

Act 326, approved and effective June 18, 1938, created the chartered city of Bacolod, comprising the territory of the Municipality of Bacolod in the Province of Occidental Negros.

Act 327, approved and effective June 18, 1938, prescribed that the auditor general shall act and decide cases involving settlement of accounts and claims other than those of accountable officers, within 60 days exclusive of Sundays and holidays and provided for appeal from the decision of the auditor general to the President of the United States, or to the President of the Commonwealth, or to the

Philippine Supreme Court. The act seeks to implement the second sentence of the third paragraph of section 7 (4) of the Tydings-McDuffie Act, 48 Stat. 456.

Act 328, approved and effective June 18, 1938, with exceptions noted in the approval, amended certain details of Act 67, the Public Works Appropriation Act approved October 23, 1936.

Act 329, approved and effective June 18, 1938, with exceptions noted in the approval, amended certain details of Act 240, the School Buildings Act approved December 8, 1937.

Act 330, approved and effective June 18, 1938, appropriated ₱96,-351,300 for sundry public works.

Act 331, approved and effective June 18, 1938, provided retirement gratuities for justices of the peace.

Act 332, approved and effective June 18, 1938, established the "National Abaca and Other Fiber Corporation" for the purpose of stabilizing the price of hemp and other fibers. The corporation was authorized to issue stock to the amount of ₱20,000,000, of which ₱9,000,000 may be sold to provinces, municipalities, cities, and the public in general. The act carried an appropriation of ₱11,000,000 for subscription to capital stock by the central government.

Act 333, approved and effective June 18, 1938, amended Act 184 to increase the compensation of officers and members of the Institute of National Language; placed the institute under the direct control and supervision of the President of the Commonwealth instead of the Secretary of Public Instruction; and appropriated ₱100,000 for its expenses.

Act 334, effective June 19, 1938, without executive approval, amended Act of the Philippine Legislature 2508 as amended by Act 133 to enable the directors of rural credit boards to obtain loans for themselves and relatives, with the express approval of the Director of Commerce.

Act 335, effective June 19, 1938, without executive approval, changed the name of "Calle Mangahan" in the city of Manila to "Pedro Guevara Street," to perpetuate the memory of the late Honorable Pedro Guevara, a form Resident Commissioner to the United States.

Act 336, effective June 19, 1938, without executive approval, changed the name of "Mojon Elementary School," in the municipality of Malolos, Province of Bulacan, to "Barasoain Memorial Elementary School."

Vetoes were returned on 44 bills, among the more important of which were:

Bill 2156 to appropriate ₱2,500,000 from the general fund for classification, survey, and subdivision of public lands. (See appendix C for veto message.)

Bill 2777 to appropriate ₱4,800,00 from the coconut oil excise tax fund to reimburse the Philippine government for expenditures for irrigation during years previous to the collection of the fund. (See appendix D for veto message.)

Bill 2924 to exempt from the percentage tax all merchants whose sales did not exceed 300 pesos a quarter.

Bill 3027 to make elective the two appointive councilors of Zamboanga.

Bill 3307 to establish religious instruction in the public schools. (See pages 34-35 and Appendix B.)

Bill 3494 to appropriate ₱2,000,000 from the coconut oil excise tax fund for participation of the Philippines in the expositions at New York and San Francisco. (See appendix E for veto message.)

Bill 3498 to appropriate ₱10,000,000 from the coconut oil excise tax fund for permanent public markets, slaughterhouses, and waterworks systems.

Bill 3499 to make Lipa, Batangas, a chartered city.

Bill 3585 to condone penalties for delinquency in payment of land taxes for all persons paying their 1938 tax within 1 year.

Bill 3603 to reorganize the Textbook Board and to prescribe preference to textbooks written by Filipino authors. (See appendix F for veto message.)

Bill 3615 to reduce by 75 percent the value assessed for purposes of taxation on coconut trees.

Fourth special session.—The legislation of the fourth special session consisted of 30 acts as follows:

Act 287, approved and effective June 3, 1938, transferred the functions of the Bureau of Commerce with respect to the registration of corporations to the Securities and Exchange Commission.

Act 288, approved June 3, 1938, and effective January 1, 1939, created a Board of Pensions for Veterans in the Department of the Interior to provide monthly pensions of not less than ₱20 nor more than ₱100 for veterans of Philippine revolutions or wars "who are old and have no apparent means of support, or who have become physically or mentally unable to pursue normally their ordinary occupation, work, or employment"; the Secretary of the Interior was authorized to include pension estimates in the annual budget of his department. Acts of the Philippine Legislature 2756 and 2922 were repealed, thus abolishing the pension granted to Gen. Emilio Aguinaldo.

Act 296, approved and effective June 9, 1938, appropriated ₱10,000 to cover the expenses of transferring the Northern Luzon Junior College of the University of the Philippines from Vigan, Ilocos Sur, to Baguio, Mountain Province.

Act 301, approved June 9, 1938, and effective January 1, 1939, amended certain sections of Act of the Philippine Legislature 4130 to place the Philippine Charity Sweepstakes on equal footing with private corporations.

Act 305, approved and effective June 9, 1938, amended Act of the Philippine Legislature 3582 as amended by Act 167 to empower the Board of Censorship for Moving Pictures to censor locally produced pictures intended for export.

Act 306, approved and effective June 9, 1938, authorized savings and mortgage banks to make loans on security of deposits.

Act 307, approved and effective June 9, 1938, authorized the President of the Commonwealth to amend the agreement between the Philippine government and the Atlantic, Gulf & Pacific Co. of Manila under Act of the Philippine Legislature 3056 for the development of the North Port project.

Act 308, approved and effective June 9, 1938, amended Act 245, the General Appropriation Act for 1938, to change the details but not the amount of the appropriation for administration of non-Christian inhabitants.

Act 309, approved and effective June 9, 1938, amended Act 137 to extend the time of registration of mining claims required in sections 62 and 68 from 2 years to 4 years.

Act 310, approved and effective June 9, 1938, prohibited the transfer of private agricultural lands to persons or corporations not qualified to acquire or hold land of the public domain (that is, to aliens).

Act 311, approved and effective June 9, 1938, amended Act 182 to increase the powers of the National Development Co. by removing the statutory provision prohibiting its competition with private business; by authorizing the company to guarantee the bonds of other companies and to purchase their securities; by authorizing the company to organize subsidiary companies; and by empowering the company to exercise the right of eminent domain.

Act 312, approved and effective June 9, 1938, amended Act 1 to fix the rank of the Chief of Staff of the Philippine Army and to shorten his term of office to 3 years.

Act 313, approved and effective June 9, 1938, authorized the establishment of regional vocational trade schools and agricultural high schools.

Act 314, approved and effective June 9, 1938, amended Act of the Philippine Legislature 3116 to authorize the Manila Railroad Co. to use the balance of funds provided by Act 3116 (approximately ₱7,000,000) for extension of the line and for construction of hotels and rest houses.

Act 315, approved and effective June 9, 1938, appropriated ₱600,000 as a revolving fund for the Bureau of Printing for work in connection with the census.

Act 316, approved and effective June 9, 1938, amended Act of the Philippine Legislature 1120 as amended by Act 32 to prevent the encumbrance, alienation, or liability for satisfaction of debt, of land purchased from the Friar Lands Estates until 5 years after date of issuance of title to the purchaser.

Act 317, approved and effective June 9, 1938, amended Act 211 to require contractors on public works to observe the 8-hour law and a minimum wage of ₱1 outside of Manila and ₱1.25 in Manila, 20 per cent extra for overtime.

Act 318, approved and effective June 9, 1938, amended Act of the Philippine Legislature 2612 by providing that the purchase and guarantee by the Philippine National Bank of bonds issued by local enterprises shall be lawful only when approved by the President of the Commonwealth or his agent, and authorized the Philippine National Bank to purchase bonds guaranteed by the National Development Co.

Act 319, approved and effective June 9, 1938, provided for the payment of retirement gratuities from the respective funds from which the salaries of retired officers and employees were paid at the time of their retirement.

Act 320, approved June 9, 1938, and effective July 1, 1938, transferred the accounting personnel of the departments, bureaus, offices, and dependencies of the National Government, including the Supreme Court, Court of Appeals, and the University of the Philippines, to the General Auditing Office.

Act 321, approved and effective June 9, 1938, authorized the President of the Commonwealth to declare any area in the Philippines a "National Defense Zone."

Act 322, approved and effective June 9, 1938, amended section 2029 and 2031 of the Administrative Code in respect to real estate loans of the Postal Savings Bank to eliminate the previous loan limitation of 50,000 pesos on one piece of property, and the requirement that the loan be approved by four-fifths of the membership of the board.

Act 337, approved and effective June 21, 1938, authorized a bond issue of ₱350,000, 30-year 5's, to cover a loan of the same amount in the same terms to the city of Cebu for the construction of sewers, and provided the necessary sinking funds.

Act 338, approved and effective June 21, 1938, constituted and granted a charter to the city of Tagaytay, formerly within the Province of Cavite.

Act 339, approved and effective June 21, 1938, appropriated ₱1,000 for the Biri Elementary School at Calbiga, Province of Samar.

Act 340, approved and effective June 21, 1938, created an animal utilization service in the Bureau of Animal Industry, appropriating for this purpose a revolving fund of ₱100,000.

Act 341, approved and effective June 22, 1938, amended certain sections of Act 107 levying fees for the registration of radio receiving sets, differing for various zones set forth in the act, and generally lowering the rates.

Act 342, approved and effective June 23, 1938, amended certain sections of the Act of the Philippine Legislature 3105 to change in certain respects the laws regulating the practice of public accounting, particularly to permit the practice of accounting and auditing under a trade name upon proper qualification and registration of the names of the members with a Board of Accountancy.

Act 343, approved and effective June 23, 1938, repealed Act 88 to abolish the State Police Force, and to reestablish and reorganize the Philippine Constabulary as a police force separate from the Philippine Army. The act appropriated for this purpose: For the balance of the fiscal year 1938, ₱500,000, plus salaries, allowances for quarters, and rations, as required to be transferred from the appropriation for the Philippine Army; for the year 1939, ₱3,250,000.

Act 344, effective June 24, 1938, without executive approval, amended section 11 of Act 120 to increase the appropriation for organizing the National Power Corporation and conducting preliminary work, from ₱250,000 to ₱550,000.

Vetoed were returned by the President of the Commonwealth on four bills as follows:

Bill 3694 to appropriate ₱30,000 for the Office of Private Education;

Bill 3701 to establish a patriotic school ritual;

Bill 3745 to appropriate ₱5,000,000 for the National Merchandising Corporation; and

Bill 3841 to authorize a bond issue of ₱500,000 by the city of Davao for sewers and public improvements.

Fifth special session.—The fifth special session was called by the President of the Commonwealth by Proclamation No. 290, July 20,

1938, particularly for the purpose of releasing certain appropriations from conditional clauses in respect to the collection of revenue from new taxes. The session was extended to August 15 by Proclamation No. 301, August 4, 1938. The legislation of the fifth special session consisted of 68 acts and one bill referable to the President of the United States. Below will be found a description of each of the acts, together with comment on a few of the more important of them:

Act 345, approved and effective August 17, 1938, repealed section 6 of Act 300, the General Appropriation Act for 1939, which provided that certain specified items of appropriation were not to be available for expenditure until enactment of tax laws authorizing collection of additional revenues sufficient in amount to cover the items. As a result of the repeal, all items of appropriation in Act 300 were made available for expenditure in 1939 without qualification in respect to revenue.

Act 346, approved and effective August 17, 1938, appropriated an additional ₱2,100,000 for expenditure in carrying out the provisions of Act 170, the Census Act of 1936. Act 170 itself appropriated ₱1,500,000 for the census.

Act 347, approved and effective August 19, 1938, appropriated ₱2,500,000 for the classification, survey and subdivision of agricultural public lands, especially of such lands as border on the national highways. It provided that the lands so classified, surveyed, and subdivided shall be open for disposition in accordance with the Public Land Act but that at least one-half of such lands shall be disposed of only by means of homestead entry. The survey and subdivision may be undertaken by employment of qualified private land surveyors on condition that no individual private land surveyor be permitted to survey more than 5,000 hectares nor an association or group of such surveyors to survey more than 10,000 hectares. Private surveyors are to be employed by means of competitive bidding. The President is authorized to suspend or stop the expenditure of the appropriation or any part thereof when the public interest so requires.

Act 348, approved and effective August 19, 1938, appropriated ₱128,000 for expenditure to June 30, 1939, for increasing the number of judges and judges-at-large of Courts of First Instance, for altering the time and place of holding courts in certain districts, and for payment of salaries of such judges and of additional court personnel.

Act 349, approved and effective August 22, 1938, appropriated ₱70,000 as a "Standardizing Meter Laboratory Revolving Fund" for the establishment of a Standardizing Meter Laboratory under the control of the Public Service Commission to carry out the provisions of section 16 (d), (e), (f), and (g), section 17 (d), and section 40 (g) of Act 146, known as the Public Service Act. The laboratory is charged with the periodic inspection, examination, and approval of meters and appliances for measurements used by public services under the jurisdiction of the Public Service Commission without depriving the city of Manila of powers exercised under Acts 484 and 2039. The Public Service Commission is authorized to collect fees from public service corporations for tests made once every 6 months on taximeters; once every 2 years on electric, water, and gas meters; and from interested parties who may request tests.

Act 350, approved and effective August 22, 1938, provided gratuities for provincial fiscals and assistant provincial fiscals applying for retirement after rendering at least 6 years satisfactory service. The gratuity is fixed at the rate of 1 month's salary of the highest basic rate of salary for every year of service and proportionately for fractions thereof. Provincial fiscals and assistant provincial fiscals who left service as of November 15, 1935, or were separated from service by reorganization under article XV section 4 of the Constitution of the Philippines are entitled to gratuities unless they have received gratuities under act 4183. The act appropriated the sum necessary to carry out its purposes but did not specify an amount.

Act 351, approved and effective August 22, 1938, authorized the President of the Philippines to contract with persons or corporations having adequate capital, experience, and organization to prospect, exploit, and develop petroleum and natural gas in the Philippines. Contracts are to be awarded subsequent to public competitive bidding and only to individuals or corporations qualified under the Constitution to exploit natural resources, that is, Philippine and American citizens. Before contracts become final they must be ratified by an act of the National Assembly. Section 3 provided that the act shall be liberally construed and that no ratified and approved contract shall be held invalid in whole or in part on the ground that it is inconsistent or contrary to the provisions of any existing law.

Act 352, approved and effective August 22, 1938, provided for the appointment of more than one vice president for the Philippine National Bank and for designation of the vice president who shall take the place of the president in case of the latter's absence or incapacity to act.

Act 353, approved and effective August 22, 1938, authorized the Board of Regents of the University of the Philippines to fix compensation and salaries of members of the faculties, officers, and employees but required that contracts stipulating compensation of ₱8,000 or more per annum be subject to approval of the President of the Philippines. The act also permitted government officers and employees to receive additional compensation from the university as lecturers.

Act 354, approved and effective August 22, 1938, appropriated ₱80,000 to be released by the Secretary of Finance upon approval by the President of the Philippines to compensate the Mountain Province for loss in revenue suffered on account of the abolition of the road tax part of the cedula tax which was effected by Act 238. The amount to be released is not to exceed the average of the proceeds of the road tax collected in the Province during 1936 and 1937.

Act 355, approved and effective August 22, 1938, strengthened the powers of the Court of Industrial Relations by: (1) Authorizing judges of the court to issue orders and punish for contempt; (2) forbidding strikes and walk-outs during investigations for fixing minimum wages or shares of laborers and tenants; (3) exempting "employers engaged in the operation of public services or in businesses coupled with a public interest" from the general prohibition in Act 103 of employing strike-breakers within 15 days after declaration of the strike; (4) including as contempt on the part of employ-

ers and employees all violations of orders of the court; (5) making the managers and directors of corporations and the officers and leaders of labor unions personally responsible in cases of contempt; (6) providing heavier penalties for violations of the act, or of any order, award, or decision of the court.

Act 356, approved and effective August 22, 1938, provided for construction and operation of national hospitals in the Provinces. First-class, second-class, and lower-than-second-class Provinces are to contribute 30, 20, and 10 percent, respectively, of the cost of construction and equipment. Operation and maintenance is to be paid from provincial and municipal funds and hospital income.

Act 357, approved and effective August 22, 1938, amended existing election procedure in many ways. A few of the important changes are:

(1) The Secretary of the Interior is empowered to suspend and, with the consent of the President of the Philippines remove, "*recalcitrant*" officers of local governments who perform duties in connection with the elections. Prior to this act, suspension and removal of such officers was only possible by indictment in the courts by action of the fiscals (prosecuting attorneys) and then only for charges of violation of election laws. The amendment gave the Secretary of the Interior and the President of the Philippines exceptionally autocratic powers over elections, particularly by introduction of "*recalcitrance*" as a cause for suspension and removal.

(2) The second Tuesday in November 1941 and every 6 years thereafter is fixed for election of the President and Vice President of the Philippines with canvass of returns to begin on the second Tuesday of December following and the officers elected to take office at mid-day on December 30 following.

(3) The second Tuesday in November 1938 and every 3 years thereafter is fixed for the election of members of the National Assembly with members elected to take office on November 15 following.

(4) The second Tuesday in December 1940 and every 3 years thereafter is fixed for the election of provincial, municipal, and city elective officers with those elected to take office January 1 following. It will be observed that local government officers, including those who perform election duties, are to be elected 1 year prior to the election of central government officers.

(5) Elections in any political division may be postponed for "any serious cause," instead of for specified causes.

(6) Electors confined in leprosarias are permitted to vote.

(7) Provision is made for intervention of the National Assembly to determine *ad interim* successor to the Presidency of the Philippines if both President and Vice President are incapacitated.

(8) Special elections are required for filling vacancies in the National Assembly instead of permitting appointments by the chief executive.

(9) "Political Committees" are recognized in connection with campaigns and an accounting system is prescribed to cover contributions and expenditures. Expenditures are limited in amount and detail. Operators of public utilities and exploiters of natural resources are prohibited from contributing to election campaigns.

(10) Free transportation, food, and drinks during political meetings, on registration day, election day, and on the day preceding election are prohibited, but these restrictions are not to become effective until January 1, 1939, that is, until after the 1938 election for assemblymen.

(11) Conviction for crimes against property is added as a cause disqualifying electors.

(12) Rule 4 of section 144 of the act reads "When in a space of the ballot there appears a name that is erased and another clearly written, the ballot is valid for the latter."

(13) The penalties are strengthened by removing fines and providing only for imprisonment in cases where persons violate election laws.

Act 358, approved and effective August 22, 1938, appropriated ₱2,000,000 to be spent at the discretion of the President of the Commonwealth for government expropriation, operation, and control of

public utilities or other business coupled with a public interest threatened or affected by strikes or lockouts of such proportions as to result in material impairment of service. The law provided for just compensation for the property and, or, rights of the owner of the business, such compensation to be determined by the courts through the exercise of the right of eminent domain.

Act 359, approved and effective August 22, 1938, appropriated ₱300,000 for payment of pensions to destitute veterans and widows of veterans of Philippine revolutions, as well as for salaries and other expenses of a Board of Pensions for veterans. This amount is apparently in addition to the ₱50,000 set up in the General Appropriation Act for 1939 (Act 300). The board was made an independent establishment whereas it was formerly under the Department of the Interior. Future appropriations are to be included in the general appropriation acts.

Act 360, approved and effective August 26, 1938, extended the standing appropriation of ₱25,000,000 for the acquisition of sites and purchase and construction of government buildings in Manila to apply also to sites and buildings in Baguio.

Act 361, approved and effective August 22, 1938, increased the number of judges of the municipal court of the city of Manila from three to four and permitted the holding of sessions at night and during holidays.

Act 362, approved and effective August 22, 1938, provided for publication in the Official Gazette rather than in newspapers of general circulation of requests for bids for construction of public works estimated to cost ₱3,000 or more, and liberalized the provisions under which public works may be undertaken by government administration.

Act 363, approved and effective August 23, 1938, authorized the White Cross, Inc., to hold four horse races annually with betting for charitable and civic purposes and to promote horse breeding in the Philippines. The races so held are to be exempt from taxation.

Act 364, approved and effective August 23, 1938, repealed section 3 of Act of the Philippine Legislature 3352 as amended by section 2 of Act of the Philippine Legislature 4261 which limited the power of the city of Manila to fill lowlands without the consent of the owner where the cost of filling would exceed one-half of the assessed value of the land to be filled.

Act 365, approved and effective August 23, 1938, amended Act of the Philippine Legislature 3846 so as not to require legislative franchise for the operation of noncommercial radio stations, and increased the penalty for violations of the radio law.

Act 366, approved and effective August 23, 1938, included in the duties of the city attorney of Baguio the prosecution of the Court of First Instance as well as in the municipal court of the city, of all crimes, misdemeanors, and violations of city ordinances.

Act 367, approved and effective August 23, 1938, transferred the National Library from the National Assembly to the Department of Public Instruction, but authorized the Speaker of the National Assembly to retain necessary personnel, equipment, and books, and corresponding appropriations, for the purposes of organizing in the National Assembly a division of bill drafting and research.

Act 368, approved and effective August 23, 1938, converted the ₱250,000 appropriated in Act of the Philippine Legislature 4184 for

construction of laborers' dwellings and the income derived from such dwellings into a revolving fund.

Act 369, approved and effective August 23, 1938, appropriated ₱4,800,000 to reimburse the account of the Public Improvement 5½ percent 20-year bonds issued under authority of Act of the Philippine Legislature 2940 (February 5, 1921) and act of Congress of July 21, 1921 (42 Stat. 145) for the proceeds thereof which were appropriated by Act of the Philippine Legislature 3932 (November 29, 1932) for construction of permanent bridges and for loans to municipalities for construction of market buildings, warehouses, and waterworks instead of for irrigation systems as originally specified. The ₱4,800,000 appropriated under the act was to be taken from coconut oil excise tax funds and when public interest so required, the President of the Commonwealth might suspend expenditures and apply the whole or a part of the sum to other authorized expenditures. In effect, the act made ₱4,800,000 available for irrigation.

Act 370, approved and effective August 23, 1938, appropriated ₱13,000 out of funds set aside for the expenses of the Department of Justice (presumably for the fiscal year 1938) for a gratuity to the widow of the late Judge Pedro Ma. Sison.

Act 371, approved and effective August 23, 1938, appropriated ₱7,300 as compensation to the widow of the late Lt. Col. James B. Ord, U. S. A.

Act 372, approved and effective August 23, 1938, amended Act 156 authorizing the Philippine Antituberculosis Society to hold horse races with betting for charitable and civic purposes and to promote horse breeding in the Philippines.

Act 373, approved August 23, 1938, and effective July 1, 1939, changed the official fiscal year from the calendar year to the period July 1 to June 30 and defined the fiscal year 1939 to cover the 6 months period January 1 to June 30, 1939, the fiscal year 1940 to cover the period July 1, 1939, to June 30, 1940.

Act 374, approved August 23, 1938, and retroactively effective as of January 1, 1938, amended the Budget Act (Act 246) requiring that expenditures of lump-sum appropriations be itemized in the form of a subsidiary budget to be approved by the President of the Commonwealth and raised the maximum wage and salary limits of lump-sum appropriations from ₱12 per day or ₱300 per month to 20 per day or ₱500 per month.

Act 375, approved August 23, 1938, and retroactively effective as of January 1, 1938, increased the appropriation for reimbursement of local governments for loss of cedula tax revenue provided for in Act 241 from ₱5,000,000 to ₱5,950,000 and changed the formula for distribution to local governments from the average of their collections during the years 1933, 1934, 1935, 1936, and 1937 to actual collections for the year 1937 only.

Act 376, approved and effective August 23, 1938, amended the General Appropriation Act for 1939 (Act 300) in respect to the item of ₱50,000 for the Philippines Historical Committee in such a manner as to make the amount available for expenditure in 1938.

Act 377, approved and effective August 23, 1938, amended the specification of two items for construction of schools in the Public Works Act of 1938 (Act 67) without increasing the amounts appropriated.

Act 378, approved and effective August 23, 1938, appropriated ₱1,500,000 from coconut oil excise tax funds for the purchase or lease, with option to purchase, of landed estates and their lease or sublease to bona fide occupants or to other qualified persons in the absence of actual occupants.

Act 379, approved and effective August 23, 1938, prohibited the delivery of imported large animals to consignees until after due registration and branding as prescribed by the Bureau of Animal Industry, and imposed penalties for failure to comply with registration and branding requirements.

Act 380, approved and effective August 23, 1938, imposed upon managers or persons in charge of sweepstakes, lotteries, or other similar schemes for distribution of prizes authorized to be conducted by the government the duty of deducting the income tax due the government on such prizes.

Act 381, approved August 23, 1938, and effective at the beginning of the school year 1939-40 (June 1, 1939), provided a reform in school support discussed above, on pages 35-36.

Act 382, approved and effective September 5, 1938, appropriated ₱5,000 for the preparation, printing, and free distribution by the National Library of the "Philippine National Anthem."

Act 383, approved and effective September 5, 1938, prohibited and penalized dumping into any river refuse, waste matter, or substances of any kind that might elevate the level of the bed, block the course of the stream, cause alluvial formations, expand the banks, or reclaim land without authority of the Secretary of Public Works and Communications.

Act 384, approved and effective September 5, 1938, amended Act of the Philippine Legislature 2832, the act creating the Metropolitan Water District, as amended by Act of the Philippine Legislature 4079 and Act 60, to:

(1) Constitute as a special fund of the district any appropriation by the National Government for improvement of the drainage system of Manila.

(2) Permit the President of the Commonwealth to convey to the district real property of the private domain of the Commonwealth needed by the district.

(3) Permit members of the district board, not government officers, to receive compensation in addition to the ₱5 per diem for attendance at meetings.

(4) Remove maximum salary limits of the manager, assistant manager, chief engineer, treasurer, and comptroller of the district.

(5) Remove the district from the jurisdiction of the Public Service Commission.

(6) Permit the district board to undertake construction and repairs administratively instead of requiring award by public bidding.

The effect of the various amendments would be to make the Metropolitan Water District practically independent of all restrictions normally applicable to the National Government or any of its subdivisions, agencies, or instrumentalities.

Act 385, approved and effective September 5, 1938, amended the National Defense Act (Act 1 as amended) in several respects, among which are:

(1) Inactive members of the reserve force shall not be considered officers or employees under civil service.

(2) The President of the Commonwealth may commission professors and assistant professors in the Military Academy as officers, to be listed separately from the general roster of the army, without privilege of transfer to other branches.

(3) Officers of the regular force separated from service without cause shall be entitled to a gratuity equivalent to 1 month's current pay times the number of years of service, including service with the constabulary.

(4) The Corps of Engineers shall have charge of all military construction work, repair and maintenance thereof, and operation of utilities, except those specifically assigned to other branches.

(5) The Signal Corps shall be charged with installation, maintenance, and operation of all military communication systems, except of organic systems of tactical units.

(6) The President of the Commonwealth may commission former officers of the National Guard and others who possess exceptional ability, special training and skill to grades above third lieutenant.

(7) Persons failing to register for military service shall be sentenced upon conviction to imprisonment for not more than 6 months or to payment of a fine of not more than ₱200 or both, instead of imprisonment for not more than 1 year or a fine of not more than ₱1,000, or both.

(8) The President of the Commonwealth may authorize the payment of burial expenses and compensation, not to exceed ₱35 and ₱100, respectively, to the widow, dependents, or parents of trainees or enlisted reserves dying as a result of injury or disease contracted in the service.

(9) The President of the Commonwealth may authorize and direct purchases to be made under the direction of the chief of staff without intervention of the Division of Purchase and Supply of the Department of Finance.

The act also increased the monthly base pay of enlisted men in some classifications.

Act 386, approved and effective September 5, 1938, granted the Philippine Press Wireless, Inc., a 50-year franchise to construct, maintain, and operate stations for the reception and transmission of wireless messages, pictures and other press matter.

Act 387, approved and effective September 5, 1938, granted the United Press Association a 50-year franchise to construct, maintain, and operate stations for the reception and transmission of wireless messages, pictures and other press matter.

Act 388, approved September 5, 1938, and effective January 1, 1939, appropriated ₱22,500 to the office of the auditor general to carry out during 1939 the purposes of Act 325 which transferred the audit of books of public utility companies from the Public Service Commission to the auditor general.

Act 389, approved and effective September 5, 1938, authorized a ₱350,000 issue of Commonwealth 30-year, not to exceed 5 percent, bonds to purchase an issue of the same description authorized for the city of Davao for sewers and permanent improvements. The usual sinking fund and city revenue withholding clauses were prescribed.

Act 390, approved and effective September 5, 1938, amended section 1 of the Public Works Act of 1938 (Act 330 covering an appropriation of ₱88,688,100 from coconut oil excise tax funds) by: (1) Inserting a new item, ₱100,000, for the construction of laborers' dwellings as contemplated in Act of the Philippine Legislature 4184 (December 7, 1934) and reducing by the same amount the item of ₱1,100,000 for the construction of the Bukidnon-Davao Road via Dangkagan and Tugbok; (2) effecting minor changes in the itemization of allotments in several Provinces.

Act 391, approved and effective September 5, 1938, amended the National Loan and Investment Board Act (Act 7 as amended by Act 109) so as to: Change the name to "National Investment Board"; place it under the Department of Finance in all matters; permit the board to authorize its chairman or a committee to perform its duties; and to condition rules and regulations issued by the board on the approval of

the Secretary of Finance instead of the President of the Commonwealth.

Act 392, approved and effective September 5, 1938, authorized the Secretary of Finance to allot from the income derived by the Bureau of Customs from operation of the arrastre service at the port of Manila such amounts as may be needed for necessary operating expenses of the arrastre service. At any time when current collections are insufficient to cover expenditures, the Bureau of Customs may obtain an advance not to exceed ₱30,000 from the Philippine Treasury. Any surplus over operating expenses shall accrue to the general fund of the central government. Appropriations made in Acts 245, 285, and 300 for the permanent personnel of the former Manila Harbor Board were reverted to the general fund.

Act 393, approved and effective September 5, 1938, authorized construction of a "Commonwealth Triumphal Arch" in Manila to commemorate the inauguration of the Commonwealth, the funds to be derived from sales of a commemorative issue of postage stamps.

Act 394, approved and effective September 5, 1938, amended the provisions of article VIII, chapter 52 of the Administrative Code, regarding the Postal Savings Bank, to authorize the escheat to the central government of dormant accounts in the Postal Savings Bank in the same manner as provided for other banks in Act of the Philippine Legislature 3936.

Act 395, approved September 5, 1938, and retroactively effective as of January 1, 1938, amended the phrase "Less—forced savings from salaries and wages" appearing under subhead "V—Summary" of the appropriation for the National Library for 1938 as provided in the General Appropriation Act for 1938 (Act 245) so as to read "Less—forced savings."

Act 396, approved and effective September 5, 1938, required the city board of Manila, when the President of the Commonwealth so directs, to levy and collect on privately owned real estate within a district or section benefited, the whole or a part of the cost as may be determined by the President of the Commonwealth, of laying out, opening, constructing, straightening, widening, extending, grading, paving, curbing, walling, deepening, or otherwise establishing, repairing, enlarging, or improving national roads within Manila, including the cost of acquiring the land and improvements thereof. The collection is to be made by means of special assessments *not necessarily uniformly* levied on the real estate affected. Upon approval of the ordinance imposing the special assessment, the city assessor shall proceed to determine the special tax payable by each realty. The special assessment is to be collected over a period of 5 years. Appeals from the determinations made by the city assessor may be taken to the Board of Tax Appeals. Collections shall accrue to the Treasury as a special fund to be allotted by the Secretary of Public Works for the construction, improvement, and maintenance of national roads within Manila.

The law appears to permit extensive exercise of the right of eminent domain by executive action without judicial process. The independence of the legislative branch of the government of Manila is nullified under the provision that the board must proceed to the special levy when so directed by the President of the Philippines. Property of the Commonwealth and of the United States is exempt from special assessment.

Act 397, approved and effective September 6, 1938, amended the charter of the city of Tagaytay (Act 338) by providing that the President of the Philippines instead of the mayor shall appoint the city secretary. The act fixed the salaries of the mayor (₱4,000), of the secretary (₱2,400), and of the vice mayor and members of the city council (₱10 for each day of attendance at council sessions). The President of the Philippines was authorized to organize the city government and for this purpose to advance not to exceed ₱25,000 from the National Treasury.

Act 398, approved and effective September 7, 1938, appropriated ₱400,000 for expenditure during 1938 and 1939 for a "Cancer Institute" under the control and supervision of the Secretary of Public Instruction.

Act 399, approved and effective September 12, 1938, amended the usury law (Act of the Philippine Legislature 2655, as amended) and the corporation law (Act of the Philippine Legislature 1459, as amended) so as to limit interest rates, inclusive of commissions, premiums, fines and penalties on loans or renewals of loans, to 12 percent per annum on secured loans and to 14 percent per annum on unsecured loans. Previously, building and loan associations charged more than the legal limits by means of premiums, commissions, and fines, and by penalties on defaulted repayments. The law excepted contracts and transactions in force on September 12, 1938.

Act 400, approved and effective September 12, 1938, but conditionally effective to claims arising since 1936, provided for indemnities and pensions in cases of accident during training of trainees or reservists: From death by accident, ₱500; temporary or partial disability, ₱15 monthly; permanent or total disability, ₱20 monthly. The expenditures are to be charged to Army appropriations.

Act 401, approved and effective September 12, 1938, appropriated ₱100,000 for establishment of post-graduate courses and fellowships in medicine for practitioners in the College of Medicine of the University of the Philippines.

Act 402, approved and effective September 13, 1938, appropriated ₱15,000 for a "Salary board" to enforce the classification and standardization of salaries in the classified and unclassified civil service, except:

(1) Elective officers and officers whose compensation is fixed in the Constitution.

(2) Officers chosen by the National Assembly in accordance with the Constitution.

(3) Employees stationed outside the territorial limits of the Philippines.

(4) The president, deans, directors, registrar, business director, and members of the faculties of the University of the Philippines.

(5) Personnel of the Philippine Army.

(6) Persons in the military or civil service of the United States serving the Commonwealth.

(7) Employees declared by the President of the Commonwealth as primarily confidential or highly technical.

There were established 10 grades and rates of compensation and 7 service classes. In addition, 2 special groups were listed as the executive and judicial groups. Upward adjustments of compensation was provided for, but in no case was compensation to be reduced as long as the incumbent continued in the same position. All increases in salary due to adjustment of compensation were to be cov-

ered for 1938 and 1939 by savings in the general appropriation acts for those years.

Act 403, approved and effective September 13, 1938, appropriated ₱10,000,000 from coconut oil excise tax funds to constitute a revolving loan fund for investment in loans to Provinces, municipalities, and chartered cities for construction of permanent public markets, slaughterhouses, and waterworks. Administration and investment of the fund were placed under the National Investment Board. The act created a "National Markets and Waterworks Board" to pass upon projects and to authorize loans. The act also repealed Act 125 which appropriated ₱2,000,000 from the general fund for the construction of waterworks and Act 216 which authorized a bond issue of ₱1,000,000 for construction of public markets. The President of the Commonwealth was authorized to suspend expenditures under the act in the public interest.

Act 404, approved and effective September 13, 1938, amended the charter of the city of Bacolod (Act 326) by:

(1) Repealing the ₱50,000 annual contribution from the provincial government of Occidental Negros.

(2) Repealing the civil register functions of the city secretary.

(3) Modifying the procedure of the city council in the enactment of ordinances not involving appropriation of funds or creating liability.

(4) Reducing the maximum limit of real estate taxes from 2 percent to 1½ percent of assessed value.

(5) Modifying the power of the mayor to remove or suspend officials and employees so as to conform to civil-service rules.

(6) Subjecting the ordinances fixing salaries of personnel to the approval of the head of the Commonwealth department having supervision over such personnel.

(7) Providing for automatic continuance of salary appropriations of preceding year in case of failure to approve new appropriations.

(8) Considering the city as a province for purposes of support of schools and internal revenue allotments.

Act 405, approved and effective September 13, 1938, amended minor items in Act 240, as amended, which appropriated ₱5,050,000 from coconut oil excise tax funds for the construction of elementary school buildings.

Act 406, approved and effective September 13, 1938, amended section 1290 of the Administrative Code by prescribing that surcharges of duty, previously within the power of the collector of customs to impose upon imported merchandise undervalued or misdescribed upon entry for the purpose of payment of lower import duty, be subject to approval by the Secretary of Finance.

Act 407, approved September 14, 1938, to take effect upon the "approval by the President of the Philippines of the certification of the Secretary of Public works and Communications that the grantee has accepted all the terms and conditions hereof and is prepared to carry out said terms and conditions," extended the franchise of the Philippine Long Distance Telephone Co. to cover operation of telephone systems between Manila and Tayabas, Camarines Sur, and Albay, and between Luzon and Mindanao. The act provided for government operation of the additional routes upon compensation at cost of serviceable equipment taken over. Failure of the grantee to file acceptance of the terms and conditions within 40 days would nullify the act.

Act 408, approved and effective September 14, 1938, provided a military criminal code or "Articles of War" for the administration of justice in the Philippine Army. Maj. Benjamin F. Caffey, U. S. A., assigned to the legal section of the Office of the High Commissioner during the year 1938, offered the following analysis:

The Philippine Code is modeled on the United States Army Articles of War. (10 U. S. C. A., 1471-1593.) While there are differences between the two codes, there are few which are of importance. The principal differences between the two codes are:

(1) Under the Philippine Code an officer who is to be a witness for the defense is ineligible to sit as a member of a general or special court-martial. Such an officer is eligible under the United States Code.

(2) Under the Philippine Code neither side is given any peremptory challenges. Under the United States Code each side has one peremptory challenge.

(3) Under the Philippine Code the punishment for refusal of a person to appear or to testify is imprisonment until the act is performed. Under the United States Code the punishment is a fine of not to exceed \$500 or imprisonment not to exceed 6 months or both.

(4) The United States Code provides for the punishment of any person guilty of an offence against public justice such as perjury, tampering with records, bribing of court officials and witnesses, etc. There is no such provision in the Philippine Code.

(5) The Philippine Code omits the provision in the United States Code which requires the President to submit to Congress annually any changes which are proposed in the rules governing the administration of military justice.

(6) The Philippine Code requires that before the reviewing or confirming authority acts upon the record of a special court-martial, he must submit it to his staff judge advocate or the Judge Advocate General. The United States Code contains no such provision.

(7) Under the United States Code, as amended by the act of August 20, 1937 (Public No. 325, 75th Cong.), the Secretary of War or Acting Secretary of War may perform the functions of the President on review or rehearing. The Philippine Code contains no analogous provision.

(8) The Philippine Code does not punish disrespect to provincial governors and boards. The United States Code punishes disrespect to governors and legislatures.

(9) The United States Code, as amended by the act of August 20, 1937 (Public No. 325, 75th Cong.), requires a formal investigation only in general court-martial cases. The Philippine Code requires a formal investigation in all cases.

(10) The Philippine Code makes it an offense to use a countersign improperly or to force a safeguard in time of war or in time of serious disturbance of the peace. The United States Code makes such actions offenses only in time of war.

(11) The United States Code fixes a mandatory punishment of death or life imprisonment for persons found guilty of murder or rape. The Philippine Code limits this punishment to murder in time of war.

(12) The Philippine Code gives courts-martial jurisdiction over all offenses against the penal laws committed on a military reservation. The United States Code limits the jurisdiction of courts-martial to certain specified crimes wherever they may be committed.

(13) The Philippine Code omits the provisions in the United States Code relating to fraudulent claims against the government.

It is probable that the Philippine Army will have considerable difficulty at first in administering the code because of the unfamiliarity of the great bulk of its personnel with the procedure outlined in the code and because of the lack of trained personnel to administer it.

Act 409, approved and effective September 14, 1938, designated provincial fiscals of Provinces, the capitals of which have been converted into chartered cities, to be *ex officio* city attorneys with additional compensation in the amount of ₱1,000 payable from city funds.

The act also provided for three assistant city attorneys to be appointed by the President of the Commonwealth with the consent of the Commission on Appointments of the National Assembly.

Act 410, effective September 15, 1938, without executive approval, inserted a new section 2545-A in the charter of the city of Baguio, chapter 61 of the Administrative Code, prescribing the annual salaries of the mayor (₱7,200), city treasurer (₱5,400), and city auditor (₱4,500).

Act 411, effective September 15, 1938, without executive approval, amended section 1487 of the Administrative Code, as amended to and including Act 135, by lowering the specific tax on fermented liquors from ₱0.125 to the former rate of ₱0.10 per liter.

Act 412, effective September 15, 1938, without executive approval, authorized the central government to purchase collectible cadastral survey fees owing to private corporations surveying under Act 3327 of the Philippine Legislature, as amended. Heretofore, the government limited its assistance to private cadastral surveyors to collection, in annual installments along with the real property tax, of the fees due them and to loans of 50 percent of the value of the fees. The act, in effect, permitted surveyors to discount the whole of their collectible fees.

Bill No. 3943, submitted to the President of the United States, October 12, 1938, sought to modify the existing requirements relative to the currency reserves in such manner as to eliminate Treasury certificates issued against dollar credits to the Treasury Certificate Fund from the basis to which the 15 percent legal minimum and 25 percent standard limits are applied in calculating the reserves held in the United States in the Exchange Standard Fund. This bill is fully discussed in the financial section of this report on page 97.

First regular session.—The first regular session of the Second National Assembly opened on January 23, 1939, and closed on May 18, 1939. President Quezon personally addressed the opening session, and recommended legislative action on the following:

1. Endorsement of the recommendations embodied in the report of the Joint Preparatory Committee on Philippine Affairs.

2. A 10-year program of land settlement in the sparsely populated regions of the Philippines, especially in Mindanao, to be financed from the proceeds of excise taxes collected in the United States on Philippine products and returned to the Commonwealth.

3. Creation of an agricultural and industrial bank.

4. Establishment of a reserve and rediscount rate.

5. Reduction of the maximum rate of interest allowed in the usury laws.

6. Transfer of the University of the Philippines to a new site near Manila, to enable expansion of facilities.

7. Assumption by the central government of financing primary schools, and leaving to local governments the financing of intermediate instruction and of vocational high schools.

8. Creation of a Department of Public Health to assume administrative supervision over public sanitation, hospitals, asylums, clinics, dispensaries, and similar institutions.

9. Completion of an agronomical survey of the Philippines as recommended by the National Economic Council and the Joint Preparatory Committee on Philippine Affairs.

10. Establishment of agricultural experiment and extension stations to be financed from the proceeds of excise taxes and repeal of existing requirements for contributions from local governments for this purpose.

11. Establishment of an institution for scientific research (reorganization of the Bureau of Science).
12. Creation of an Institute of Nutrition.
13. Improvement of the legal and judicial services of the government.
14. Modification of the immigration law to remove discriminations against certain races by establishment of a uniform quota for all countries.

Bills passed in the first regular session numbered 85, of which 4 were vetoed by the President of the Philippines. The measures which received executive approval or became laws without executive action follow:

Act 413, approved and effective March 7, 1939, appropriated ₱500,000 to be expended at the discretion of the President for additional services, personnel, and facilities for law enforcement, particularly of the rice tenancy law.

Act 414, approved and effective March 13, 1939, appropriated ₱150,000 to enable the President of the Philippines to continue negotiations between the United States and the Philippines for the adjustment of economic and trade relations between the two countries.

Act 415, approved May 22, 1939, and retroactively effective January 1, 1939, appropriated ₱2,975,000 to compensate Provinces, subprovinces, chartered cities, municipalities and municipal districts for loss in revenue because of the abolition of the cedula tax.

Act 416, approved and effective May 22, 1939, appropriated ₱2,740,000 to reimburse in the amount of ₱2,700,000 expenses borne by the Department of the Interior and local governments incident to the election of members of the Second National Assembly, and to cover unpaid expenses for the plebiscite on woman suffrage in 1937 totaling ₱40,000.

Act 417, approved and effective May 22, 1939, increased the penalty for robbery or theft of mail matter provided by articles 302 and 310 of the Revised Penal Code.

Act 418, approved and effective May 22, 1939, appropriated ₱250,000 from the coconut oil excise tax funds for expediting the agronomical survey of the Philippines.

Act 419, approved and effective May 22, 1939, exempted from court fees and other expenses all cases of summary settlements of estates of deceased persons and guardianship proceedings wherein the gross value of the estate does not exceed ₱300.

Act 420, approved and effective May 31, 1939, authorized the organization of a corporation or government agency to have charge of subleasing landed estates acquired under the provisions of Commonwealth Act 378, to be capitalized as not to exceed ₱1,500,000, appropriated from the coconut oil excise tax funds under Act 378.

Act 421, approved and effective May 31, 1939, inserted two new sections in Commonwealth Act 108; penalized any person, corporation or association who should lease or in any other way transfer to unqualified persons corporations or associations any right, franchise, privilege, property or business reserved by the Constitution and laws of the Philippines to Philippine or United States citizens or corporations and associations the capital of which is owned to the extent of 60 per centum or more by Philippine or United States citizens. The violation of the provisions of Commonwealth Act 108 by the spouse of any

public official was made a cause for dismissal from office of such public official.

Act 422, approved and effective May 31, 1939, exempted municipalities and municipal district from payment of docket fees in justice of the peace courts on cases involving crimes or violations of municipal ordinances.

Act 423, approved and effective May 31, 1939, prescribed that public works and public improvement projects in chartered cities costing ₱3,000 or more be awarded to the lowest responsible bidder unless the President approved undertaking the project by administration.

Act 424, approved and effective May 31, 1939, designated district engineers of Provinces whose capitals had been converted into chartered cities as *ex officio* city engineers with additional compensation; placed all city engineers of chartered cities under the supervision and control of the Director of Public Works; and provided for appointment of all engineering personnel for chartered cities in accordance with the laws governing appointment of engineering personnel in the engineering district of the Bureau of Public Works.

Act 425, approved and effective May 31, 1939, reduced the bond required of the clerk of the Court of Appeals from ₱20,000 to ₱5,000.

Act 426, approved and effective May 31, 1939, amended the charter of the city of Iloilo by prescribing that in criminal cases under original jurisdiction of the Courts of First Instance the city fiscal may file the corresponding information under oath without the necessity of accompanying depositions.

Act 427, approved and effective May 31, 1939, relieved all provinces, municipalities, municipal districts, and the cities of Zamboanga and Davao, from payment of sheriff fees.

Act 428, approved and effective May 31, 1939, authorized the issue at not to exceed 5 percent of ₱500,000 in Commonwealth 30-year bonds to purchase a similar issue authorized the city of Bacolod for the construction of a city hall, necessary sewer facilities, and other permanent improvements. The usual sinking fund and city revenue withholding clauses were prescribed.

Act 429, approved and effective May 31, 1939, authorized the President of the Philippines to conduct negotiations with the President of the United States for the assignment of Filipinos to embassies or consulates of the United States in foreign countries for training or service and appropriated ₱200,000 for salaries, travel and other expenses.

Act 430, approved and effective May 31, 1939, created the Department of National Defense and the Department of Health and Public Welfare, and provided funds for their organization and establishment from forced savings in the General Appropriation Act for the fiscal year 1940 in salaries and wages and sundry expenses of the offices and bureaus under the office of the President and the Department of Public Instruction.

Act 431, approved and effective May 31, 1939, empowered the Board of Documents to destroy valueless documents by burning them in the presence of its members or of two authorized representatives.

Act 432, approved and effective May 31, 1939, amended section 62 of General Orders No. 58, known as the Code of Criminal Procedure,

by providing for the taking of depositions of material witnesses who are to leave the Philippines without definite date of return, and for the admission of such depositions as evidence in the trial of criminal cases.

Act 433, approved and effective May 31, 1939, suspended for 5 years the granting of geological exploration and petroleum drilling leases authorized in Act 2932.

Act 434, approved and effective May 31, 1939, vested in the Treasurer of the Philippines powers over trusts for charitable purposes similar to powers exercised by him over mutual benefit, relief, and benevolent societies and associations under article VIII, chapter 41, title VII of the Administrative Code.

Act 435, approved and effective May 31, 1939, authorized the employment of officers of government vessels to substitute for absent officers or crew and payment of their salaries from savings in the appropriation for salaries and wages of the bureau of office concerned.

Act 436, approved and effective May 31, 1939, included the cost of reconnaissance and survey of public forests as charges against the ₱1,000,000 appropriated from the coconut oil excise tax funds under Commonwealth Act 304 for reforestation and afforestation purposes.

Act 437, approved and effective May 31, 1939, inserted a new section, numbered 171½, in the corporation law (Act 1459 as amended) prohibiting the investment of the funds of a corporation in any other corporation or business unless approved by two-thirds vote of the stockholders when the purposes for which the investing corporation was organized differ from those of the other corporation or business.

Act 438, approved and effective May 31, 1939, increased from ₱12,000,000 to ₱20,000,000 the maximum limit of the bonded indebtedness of the Metropolitan Water District authorized by Act 4079.

Act 439, approved and effective May 31, 1939, extended to October 1, 1939, the period during which provincial fiscals and assistant provincial fiscals could apply for retirement after 6 years' satisfactory service.

Act 440, approved and effective May 31, 1939, designated as city registers of deeds *ex officio*, with additional compensation of ₱500 per annum payable out of city funds, the registers of deeds of Provinces whose capitals were converted into chartered cities.

Act 441, approved and effective June 3, 1939, created a National Land Settlement Administration to: (1) Facilitate the acquisition, settlement, and cultivation of lands acquired either from the Government or from private owners; (2) afford opportunity to tenant and small farmers and ex-military trainees to acquire farms; (3) encourage migration to sparsely populated regions and facilitate the amalgamation of the people in different sections of the Philippines; (4) develop new money crops to take the place of existing export crops which may suffer from loss of preferences which they now enjoy in the American market. The act appropriated ₱20,000,000 from the coconut oil excise tax funds as capital stock of the corporation.

Act 442, approved and effective June 3, 1939, directed the Board of Regents of the University of the Philippines to transfer the colleges, schools, and units of the University of the Philippines located in the city of Manila, to a site outside the city to be chosen by the board

and approved by the President of the Philippines. A total of ₱17,500,000 from the coconut oil excise tax funds was appropriated, to be released as follows:

Upon approval, and to cover the construction of a hospital.....	₱8,500,000
Annually on July 1 for 5 years (1940 to 1944), at ₱1,500,000.....	7,500,000
Annually on July 1 for 5 years (1945 to 1949), at ₱300,000.....	1,500,000
Total	₱17,500,000

Act 443, approved and effective June 3, 1939, increased the membership of the Board of Regents of the University of the Philippines from 10 to 11; vested the appointment of 7 instead of 4 of the members in the President of the Philippines with the consent of the National Assembly with tenure of office from 1 to 7 years; and provided for the appointment of a new member every year.

Act 444, approved and effective June 3, 1939, repealed Act 4123 as amended by Act 4242, and prescribed a new 8-hour labor law applicable to all industrial or occupational employees, except farm laborers, laborers on the piece-work basis, domestic servants, and members of the family of the employer. The act provided for increased compensation of 25 percent of the regular rate for overtime work and for work on Sundays and legal holidays, with penalty of not more than ₱1,000 fine or 1 year's imprisonment, or both, for violations of the law by employers.

Act 445, approved and effective June 3, 1939, relieved commercial and industrial establishments from the requirement to maintain an emergency hospital provided public hospitals are available within 5 kilometers from the municipal limits.

Act 446, approved June 8, 1939, to be effective July 1, 1939, except where otherwise stated, the General Appropriation Act for the Fiscal Year 1940, appropriated a total of ₱74,441,357 for operation of the general government during the fiscal year ending June 30, 1940. The amount of ₱669,410, included in the above total, was earmarked as chargeable against the coconut oil excise tax funds.

Act 447, approved and effective June 8, 1939, increased the penalty for unlawful occupation, utilization, or destruction of communal forests and communal pastures, but provided for exemption where occupation was found to be in good faith for more than 5 years.

Act 448, approved and effective June 8, 1939, regulated the height and appearance of structures near landing fields.

Act 449, approved and effective June 8, 1939, authorized the President of the Philippines, upon payment of just and reasonable compensation and with the approval of the National Assembly, to negotiate the transfer to the Philippine government of any public utility when management by the government might be adjudged to be in the public interest.

Act 450, approved and effective June 8, 1939, appropriated ₱500,000 for the equipment, maintenance, and operation of breeding stations and stock farms for livestock; and prescribed the castration of such livestock as may be deemed unfit for breeding purposes.

Act 451, approved and effective June 8, 1939, created the legislative service office in the National Assembly to undertake research work for the National Assembly and to aid in drafting laws; appropriated ₱100,000 for expenses during the fiscal year ending June 30, 1940; and repealed Act 3690 which in 1931 established a similar service.

Act 452, approved and effective June 8, 1939, promulgated a Pasture Land Act, providing for lease or permit from the Director of Forestry of all public lands for pasture purposes, limited to Philippine citizens and corporations or associations 60 percent of whose capital stock is held by citizens of the Philippines.

Act 453, approved and effective June 8, 1939, authorized the President of the Philippines until December 31, 1939, to abolish the National Information Board constituted by Act 185 and to transfer its powers, functions and duties, personnel, appropriations and properties to the Department of the Interior.

Act 454, approved and effective June 8, 1939, exempted from jurisdiction, supervision, and control of the Public Service Commission under the Public Service Act (Act 146): (1) Steamboats, motorships and steamship lines, privately owned or owned and controlled by government corporations or instrumentalities; (2) ice and refrigeration plants and other public services operated in the Philippines by and for exclusive use only of the Government of the United States; (3) municipal warehouses; (4) animal-drawn vehicles and vancas propelled by oar or sail; (5) airships within the Philippines, except as regards freight and passenger maximum rates; (6) radio companies, except as regards rates; and (7) services owned or operated by any national government instrumentality or corporation. The act empowered the Public Service Commission to condition grants of certificates of public convenience and of public necessity upon government acquisition at cost of useful equipment; prohibited transfers of capital stock amounting to more than 40 percent to any transferee without prior approval of the Commission.

Act 455, approved and effective June 8, 1939, covered the property of government-owned corporations into the government property insurance fund, subject to the approval of the Treasurer of the Philippines; increased the amount of the government property insurance fund from ₱500,000 to ₱2,000,000; and provided a continuing annual appropriation of not to exceed ₱100,000 to maintain the fund at the prescribed amount.

Act 456, approved and effective June 8, 1939, amended the Public Land Act (Act 141) to restrict homesteaders to only one homestead entry; restricted encumbrance or alienation of lands acquired under patent or homestead provisions within a period of 5 years subsequent to date of issuance of patent or grant; and required approval by the Secretary of Agriculture and Commerce of any alienation, transfer or conveyance of homesteads after 5 years and before 25 years subsequent to the issuance of title.

Act 457, approved and effective June 8, 1939, permitted the construction of national government and other public buildings under Act 3597 on a site to be selected by the President of the Philippines within a distance of 30 kilometers from the Rizal Monument in Manila.

Act 458 (bill 1047), originally approved June 9, 1939, and effective January 1, 1940, or earlier by proclamation of the President of the Philippines. The act provided for the establishment of a reserve system and bank capitalized at ₱5,000,000; appropriated ₱2,000,000 from the coconut oil excise tax funds for government purchase of stock; required all banks organized under the laws of the Philippines to be-

come members of the reserve system; required all member banks to deposit all statutory reserves in the bank.²

Act 459, approved and effective June 9, 1939, created the Agricultural and Industrial Bank, a corporation to exist for a term of 50 years with capital stock to be fully and exclusively subscribed by the Government at ₱150,000,000 divided into 150,000 shares with a par value of ₱1000; appropriated the capital subscription of ₱150,000,000 from the coconut oil excise tax funds to be released at not to exceed ₱15,000,000 in any year; empowered the bank among other things (1) to grant agricultural, industrial and real estate loans; (2) to establish and operate bonded warehouses; (3) to underwrite, purchase or guarantee agricultural and industrial bonds and bonds secured by real estate used for commercial purposes; (4) to deal in trusts and to manage and administer the funds and properties of the National Investment Board; (5) to issue bonds; and (6) to accept savings and time deposits.

Act 460, approved and effective June 9, 1939, amended the charter of the Philippine National Bank to increase the amount that might be loaned for agricultural purposes from 60 percent to 75 percent of its capital and surplus plus all amounts realized from sale of real estate bonds.

Act 461, approved and effective June 9, 1939, forbade the dispossession of tenants except under the causes for dispossession allowed in Act 4054, known as "The Philippine Rice Share Tenancy Act"; and provided for compulsory arbitration in dispute between landlords and tenants.

Act 462, approved and effective June 14, 1939, amended Act 51, the charter of the city of Davao, in respect to taxes on real estate in the city of Davao.

Act 463, approved and effective June 14, 1939, extended the maximum period for repayment of loans of municipal funds for school purposes provided in section 2117 of the Administrative Code from 5 to 10 years.

Act 464, approved and effective June 14, 1939, remitted all outstanding delinquencies in payment of taxes on forfeited real property on condition that 50 percent of the taxes and the penalties corresponding to 1938 and the entire amount of the tax for 1939 be paid on or before December 31, 1939.

Act 465, approved June 14, 1939, and effective January 1, 1940, imposed a graduated residence tax on all persons in the Philippines 18 years of age or over, with regular employment, or owning real property assessed as ₱1,000 or more; exempted from payment of the residence tax: (a) The United States High Commissioner and members of his staff; (b) Commissioned officers of the United States Army and Navy; (c) Enlisted soldiers, sailors, and marines of the United States Army and Navy; (d) Civilian employees of the military or naval branches of the United States Government in the

² In view of subsequent representations made by the High Commissioner to the effect that Act 458 should have been submitted as bill 1047 to the President of the United States under section 2 (a) (9) of the Tydings-McDuffie Act, the Second National Assembly on Nov. 14, 1939, passed bill No. 1244 (apparently not numbered as an act) which sought to submit Act 458 as bill 1047 to the President of the United States. Thereafter, on April 19, 1940, the National Assembly passed Resolution No. 74, requesting the President of the Philippines to withdraw bills 1047 and 1244 and return them to the assembly. The effect of Resolution 74 is interpreted as a repeal of Act 458.

Philippines under orders from the United States Government; (e) Diplomatic and consular representatives and officers of foreign powers; and (f) transient visitors when their stay in the Philippines does not exceed 3 months.

Act 466, approved June 15, 1939, and effective July 1, 1939, except section 187 which imposed a percentage tax of $1\frac{1}{2}$ percent on consignments abroad requiring approval by the President of the United States, and would be effective only on the date of the proclamation of such approval; amended and codified all internal revenue laws into a National Internal Revenue Code; specified as national internal revenue taxes, in addition to miscellaneous taxes, fees, and charges, the following: (a) Income tax; (b) estate, inheritance, and gift taxes; (c) specific taxes on certain articles; (d) privilege taxes on business or occupation; (e) documentary stamp taxes; (f) mining taxes.

Act 467, approved June 15, 1939, and effective July 1, 1939, appropriated the additional sum of ₱3,409,045 for operation of the government of the Philippines during the fiscal year 1940.

Act 468, approved and effective June 15, 1939, appropriated ₱2,000,000 as an advance fund to finance a general revision of real property assessments in the Provinces.

Act 469, approved and effective June 15, 1939, appropriated ₱8,180,000.00 for various public works projects, of which the sum of ₱3,595,086.60 are to be taken from the coconut oil excise tax funds; provided for reversion to corresponding funds of all unexpended balances on June 30, 1942; and authorized the President of the Philippines to suspend or stop the expenditure of any amount appropriated when the public interest so requires.

Act 470, approved June 16, 1939, and effective January 1, 1940, the assessment law, provided for the assessment of real property taxes on all real property in the Philippines excepting those specifically exempted in the law.

Act 471, approved and effective June 16, 1939, amended Act 4003, known as the "Fisheries Act," to improve and clarify various provisions, and to restrict municipal fisheries to citizens of the Philippines.

Act 472, approved and effective June 16, 1939, revised the general authority of municipal councils and municipal district councils to levy taxes, and repealed acts 3422, 3700, 3790, 3833, and 4019.

Act 473, approved and effective June 17, 1939, promulgated a "Revised naturalization law" particularly with a view to enabling foreigners, not eligible to become citizens of the United States, to become citizens of the Philippines; lengthened from 5 to 10 years the residence requirement of applicants without special qualifications, and from 2 to 5 years the residence requirement of those with special qualifications, birth in the Philippines to be a special qualification for applicants.

Act 474, approved with exceptions and effective June 17, 1939, amended certain items in the appropriation of ₱5,050,000 from the coconut oil excise tax funds for elementary school buildings as provided for in Act 240, and extended the date of reversion of unexpended balances from December 31, 1939 to December 31, 1940.

Act 475, approved with exceptions and effective June 17, 1939, amended certain items in Act 330, an act appropriating ₱96,351,300 from the coconut oil excise tax funds for public works.

Act 476, enacted without executive approval and effective on June 18, 1939, repealed Act 1639, which prohibited the sale, gift, or other disposal of intoxicating liquors to members of non-Christian tribes.

Act 477, enacted without executive approval and effective on June 18, 1939, amended subsection (m) of section 671 of the Administrative Code as amended by embracing in the unclassified service all deputy governors and special agents of specially organized Provinces.

Act 478, enacted without executive approval and effective on June 18, 1939, named as "Comandante Quezon Highway" the provincial road from Balanga to Bagac, in the Province of Bataan.

Act 479, enacted without executive approval and effective on June 18, 1939, amended subsection (f) of section 2615 of the Administrative Code so as to permit vice mayors and councilors of municipalities and municipal districts in specially organized Provinces to receive not to exceed 2 pesos per diem for each day of council session attended, or the salary of the mayor when acting in his absence.

Act 480, enacted without executive approval and effective June 18, 1939, transferred the administration and general supervision of the Pilar Irrigation System from the Municipality of Pilar, Bataan, to the Bataan District Engineer.

Act 481, enacted without executive approval and effective June 18, 1939, amended the mechanical engineering law, Act 294, so as to authorize the licensing of plant mechanics and engineers.

Act 482, enacted without executive approval and effective June 18, 1939, authorized the President of the Philippines to accept the decoration known as the "Grand Cross of the Order of the Crown of Italy," and to wear the insignia of the order.

Act 483, enacted without executive approval and effective June 18, 1939, authorized the President of the Philippines to accept a gift consisting of arms of Mexican manufacture tendered him by the Government of Mexico.

Act 484, enacted without executive approval and effective June 18, 1939, amended Act 156 relative to the authority of the Philippine Antituberculosis Society to hold horse races.

Act 485, enacted without executive approval and effective June 18, 1939, permitted bets in the game of Basque pelota in the Philippines.

Act 486, enacted without executive approval and effective June 18, 1939, granted to Esperanza Lucerna a franchise for an electric light, heat, and power system in Ilog, Occidental Negros.

Act 487, enacted without executive approval and effective June 18, 1939, granted to the Cotabato Light & Power Co., Inc., a franchise for an electric light, heat, and power system in Cotabato, Cotabato.

Act 488, enacted without executive approval and effective June 18, 1939, authorized Roman Baluyut to sell, convey, assign, or otherwise transfer his franchise and all property rights acquired under Act 3880, in favor of the Riverside Electric Co., Inc.

Act 489, enacted without executive approval and effective June 18, 1939, amended the charter of the city of Iloilo, Act 57 as amended by Act 158, so as to relieve the Province of Iloilo from the requirement

to appropriate ₱50,000 to ₱100,000 annually for the support of the city.

Act 490, enacted without executive approval and effective June 18, 1939, amended the leave law, article IV, chapter 13 of the Administrative Code, as amended by Act 220, so as to extend the leave privileges to regularly appointed officers and employes of Provinces, chartered cities, municipalities and municipal districts.

Act 491, enacted without executive approval and effective June 18, 1939, amended Act 2590 as amended so as to eliminate reference to protection of fishes, shells, and mollusks in view of the protection already afforded under the Fisheries Act, Act 4003 as amended by Act 471; appropriated ₱25,000 annually to be set aside from receipts under Act 2590 as amended, for purposes of enforcement.

Bill No. 958, signed by the President of the Philippines on June 16, 1939, repealed paragraph 349, section 12, act of Congress of 1909, known as the "Philippine Tariff Act of 1909"; amended section 14, so as to exempt from payment of the wharfage tax of \$1 per gross ton, creosoted lumber and other pressure treated materials and rock asphalt shipped from the Philippines to the United States, and to charge only 30 cents per cubic meter for logs or flitches of cross-section of 12 inches square or over. The President of the Philippines vetoed section 3 of the bill, which proposed to restrict the drawback of duty paid on imported fuel oil used in the propulsion of shipping vessels only to vessels of United States or of Philippine registry. The bill was submitted to the President of the United States for action under section 2 (a) (9) of the Tydings-McDuffie Act.³

Bill 1000, signed by the President of the Philippines on June 14, 1939, and submitted to the President of the United States under section 2 (a) (9) of the Tydings-McDuffie Act. The bill sought to amend section 6 of the Philippine Tariff Act of 1909 as amended by Act 4054 by providing for (1) conversion of the dutiable value of imported goods into money of account of the United States upon the basis of the Federal Reserve Bank rate of exchange but in no case at lower than the rates specifically listed and (2) cognizance of the country of production instead of country of shipment in the calculation of dutiable value and conversion of the currency of invoice into the currency of country of production on the basis of the Federal Reserve Bank rate of exchange, with assessment of duty at not less than the rates assessable on the dutiable value originally stated in the invoice. The object of the measure is to prevent various practices resorted to by importers to obtain effective reduction of *ad valorem* duties.

Vetoes were returned by the President of the Philippines on four bills as follows:

Bill No. 439, which sought to require the stamping of the name of dealer and of species on all lumber offered for sale.

Bill No. 448, which sought to amend the text book law, Act 2957 as amended.

Bill No. 817, which sought to amend Act 666, the trade-mark law.

Bill No. 828, which sought to lay open to judicial review cadastral proceedings previously settled by court action.

³ Bill 958 was approved by the President of the United States on Dec. 22, 1939, becoming Commonwealth Act 512.

Legislation Submitted to the President of the United States

Section 2 (a) (9) of the Tydings-McDuffie Act stipulates that acts affecting currency, coinage, imports, exports, and immigration shall not become law until approved by the President of the United States.

The status of all legislation forwarded since the inauguration of the Commonwealth to the President of the United States for action under the provisions of section 2 (a) (9) of the Tydings-McDuffie Act, as of June 30, 1939, is as follows:

Legislation approved by the President of the United States

Bill 2357 (Act 231), First National Assembly, signed by the President of the Philippines on November 18, 1936, stipulated gross weight for purposes of assessment of duty on imported fresh or preserved eggs under section 8, paragraph 269 (a), of the Philippine Tariff Act of 1909. Bill 2357 was approved by the President on March 9, 1937, becoming Commonwealth Act 231.

Bill 1535 (Act 232), First National Assembly, signed by the President of the Philippines on November 5, 1936, exempted natural rock asphalt exported from the Philippines from the payment of the \$1 per metric ton wharfage fee provided for in section 14 of the Philippine Tariff Act of 1909. Bill 1535 was approved by the President on March 9, 1937, becoming Commonwealth Act 232.

Bill 2512 (Act 253), First National Assembly, signed by the President of the Philippines on December 17, 1937, continued the suppression of section 8, paragraph 64, of the Philippine Tariff Act of 1909 which levied from 10 to 30 percent ad valorem on dyes, dyestuffs, tanbark, and tanning extracts. The result is to continue these items in the free list. Bill 2512 was approved by the President on February 26, 1938, becoming Commonwealth Act 253.

Resolution 149 (Act 256), First National Assembly, signed by the President of the Philippines on March 17, 1938, confirmed the commitments of the Commonwealth of the Philippines under the International Agreement Regarding the Regulation of the Production and Marketing of Sugar and the protocol annexed thereto, signed in London on May 6, 1937. Resolution 149 was approved by the President on April 29, 1938, becoming Commonwealth Act 256.

Legislation which had not been acted upon by the President of the United States

Bill 11, First National Assembly, signed by the President of the Philippines on November 5, 1936, sought to establish an embargo on the export of fibers (buntal), seeds, or seedlings of the plant commonly known as the *buri* palm (*Corypha elata* Roxb.).⁴

Bill 1490, First National Assembly, signed by the President of the Philippines on November 7, 1936, sought to amend section 8, paragraphs 264 and 265, of the Philippine Tariff Act of 1909 in such manner as to increase the import duty on malt beverages, except stout, from \$4-\$5.50 to \$14-\$16.40 per hectoliter, on cider from \$4 to \$4.90 per hectoliter, and on nonalcoholic mineral waters from \$1.50 to \$2.50 per hectoliter.⁵

⁴ Bill 11 was approved by the President of the United States on June 7, 1940, becoming Commonwealth Act 585.

⁵ By Resolution No. 68 of the Second National Assembly (2d sess.), adopted on Mar. 14, 1940, the President of the Philippines was requested to withdraw bill 1490 of the First National Assembly and return the said bill to the National Assembly.

Bill 2336, First National Assembly, signed by the President of the Philippines on November 5, 1936, sought to amend the Philippine Tariff Act of 1909 in such manner as to permit the President of the Philippines "after due investigation and when the public interest so requires" to increase the rates of duty on any or all articles imported into the Philippines fourfold, or to decrease such rates of duty by three-fourths.⁶

Bill 2396, First National Assembly, signed by the President of the Philippines on November 29, 1936, sought to amend section 37 of Act 4003 in such manner as to levy a 20 percent *ad valorem* tax on the export from the Philippines of gold-lip pearl shell (*Pinctata maxima* Jameson), black-lip pearl shell (*Pinctata margaritifera* Linnaeus), smooth top shell (*Trochus niloticus* Linnaeus), rough top shell (*Trochus maximus* Koch), and green snail shell (*Turbo marmoratus* Linnaeus).⁷

Bill 3943, First National Assembly, signed by the President of the Philippines on September 14, 1938, sought to modify the requirements relative to the currency reserves in such manner as to eliminate Treasury certificates issued against dollar credits to the Treasury Certificate Fund from the basis to which the 15 percent legal minimum and 25 percent standard limits are applied in calculating the reserve held in the United States in the Exchange Standard Fund.⁸

Bill 957 (Act 466), Second National Assembly, known as the National Internal Revenue Code, section 187 of which sought to impose a percentage tax of 1½ percent on consignments abroad. The bill was signed by the President of the Philippines on June 15, 1939.⁹

Bill 1000, Second National Assembly, signed by the President of the Philippines on June 14, 1939, sought to amend section 6 of the Philippine Tariff of 1909 as amended, in order to correct certain inequalities in the parity rates used for the conversion of foreign currencies into United States currency for the purpose of collection of *ad valorem* rates of customs duty on imported articles.

VIII. Public Finance and Banking

This section contains statistical tables and related comments on public finance and banking for the fiscal years 1937 and 1938. Wherever possible, the report reflects both operations and figures for the first 6 months of 1939. The period from January 1, 1939, to June 30, 1939, is known as the "fiscal year 1939." Pursuant to the provisions of Act 373 the Commonwealth government changed its books, records and accounts from a calendar year basis to a fiscal year basis on

⁶ By Resolution No. 67 of the Second National Assembly (2d sess.), adopted on Mar. 14, 1940, the President of the Philippines was requested to withdraw bill 2336 of the First National Assembly and return the said bill to the National Assembly.

⁷ By Resolution No. 66 of the Second National Assembly (2d sess.), adopted on Mar. 14, 1940, the President of the Philippines was requested to withdraw bill 2396 of the First National Assembly and return the said bill to the National Assembly.

⁸ By Resolution No. 18 of the Second National Assembly (1st sess.), adopted on May 8, 1939, the President of the Philippines was requested to withdraw bill 3943 of the First National Assembly and return the said bill to the National Assembly.

⁹ Representations were made to the effect that in the opinion of this office section 190 of the bill, which sought to levy a compensating tax on certain imported articles, should also be submitted to the approval of the President under section 2 (a) (9) of the Tydings-McDuffie Act. Subsequently, the Second National Assembly passed bill 1205 (Act 503) which was signed by the President of the Philippines on October 16, 1939. Bill 1205 sought to amend bill 957 (Act 466) including sections 187 and 190 thereof, and provided that both sections as amended be submitted to the action of the President of the United States.

June 30, 1939. A statement presenting the finances of the Commonwealth as a unit is attached as appendix G.

Financial Legislation

On April 30, 1938, the President of the Philippines submitted the national budget for the fiscal year 1939, together with his budget message, to the National Assembly. On February 7, 1939, he submitted the national budget for 1940. Extracts from his two budget messages follow:

The 1939 budget.—The total ordinary income which is to accrue to the general fund proper in 1939 is now estimated at ₱79,309,803. This amount is ₱1,135,897 less than the total estimated ordinary income for 1938 and ₱16,937,160.12 less than that which was actually collected in 1937. In my budget message of February 7, 1938, I explained to you the reasons why we should be conservative in estimating the probable income of the government in 1939. The prediction which I made then as to the possibility of a substantial decline in the revenue collections of the government is now a reality. The collections from customs duties have taken a downward trend, while the income tax returns for 1937 indicate that the revenue from this source in 1938 will be reduced by about ₱8,000,000.

The total estimated ordinary expenditures of the government for 1939, as modified, amount to ₱77,976,379.40, of which ₱67,943,680.40 is for the operating expenses of the various departments and ₱10,032,699 is for fixed expenditures required by existing laws. The said total estimated ordinary expenditures are less than those for 1938 by ₱510,365.51. This reduction is due to the inclusion of the appropriation for extension of elementary instruction in 1939 among those which are to be covered by the revenues to be derived from new taxes, whereas, for 1938, the item for this purpose formed part of the ordinary expenditures. On the other hand, it has been made possible to provide for larger outlays which are urgently needed for giving adequate subsistence and gratuity of prisoners; for salaries of additional court stenographers, letter-carriers, telegraph-messengers, and nurses, attendants and other minor employees of the Philippine General Hospital and the National Psychopathic Hospital; and for sundry expenses to offset the additional allotments previously derived from savings in the appropriations for salaries and wages.

The total extraordinary expenditures, which are chargeable against the accumulated surplus of the general fund proper amount to ₱1,854,637, consisting mostly of amounts for the expenses of delegates to international conventions and conferences, the Philippine Historical Committee, scholarships, aid to the Philippine Amateur Athletic Federation, and aids to the cities of Manila and Baguio.

Besides the above-mentioned proposed expenditures, the budget includes the following additional appropriations from the general fund proper for new activities or expansion of existing activities, which I consider essential for compliance with the constitutional mandate which requires that "the government shall establish and maintain a complete and adequate system of public education, and shall provide at least free public primary instruction"; for a more effective protection of the public health; and for the promotion of the social and general welfare of the people:

	<i>Pesos</i>
I-IV-6. Additional appropriation for the establishment of opening of new primary schools or classes in June 1938 including the purchase of necessary textbooks-----	1, 000, 000
I-IV-7. For the continuation of the new elementary schools or classes ses established or opened in 1938-----	1, 841, 000
I-IV-8. For the operation and maintenance of primary schools in the cities of Manila and Baguio from June to December 1939-----	818, 700
I-IV-9. For the operation, maintenance, and equipment, including the purchase of necessary textbooks, of new public primary schools or classes to be established upon the opening of the school year 1939-40-----	1, 000, 000
I-IV-14. For the conversions of existing agricultural schools to regional agricultural schools of the Central Luzon type and/or the establishment of new regional agricultural schools of said type-----	192, 000

	<i>Pesos</i>
I-IV-15. For the conversion of existing trade schools to regional trade schools of the type of the Philippine School of Arts and Trades and/or the establishment of new regional trade schools of said type-----	158,000
I-IV-29. For the operation of additional traveling X-ray units and establishment of combined pneumothorax clinics and tuberculosis dispensaries-----	145,597
I-IV-30. For the establishment and maintenance of public health laboratories for the study and investigation of communicable diseases-----	71,500
I-IV-31. For the establishment, operation, and maintenance of offices of epidemiologists to be assigned by the director of health in the Provinces of the Philippines to make scientific epidemiological studies and investigations of the prevalence of communicable diseases-----	45,500
I-IV-32. For the extension of the control and eradication of malaria-----	950,000
I-IV-35. For expenses of the nursery for nonleprous babies and children below 2 years of age-----	18,720
G-IV-20. Additional expenses for the operation and maintenance of 10 aerological stations-----	30,200
H-IV-16. Additional expenses for the operation and maintenance of 10 radio stations to be devoted principally for broadcasting weather reports-----	70,900
H-IV-17. For the operation of 12 radiotelephone stations to be established at different airports for the benefit of aviation-----	20,454
D-IV-1. For pensions of aged and needy veterans of the Philippine revolution as may be authorized by law-----	50,000
Total-----	6,412,571

Inasmuch as the current ordinary income of the national government that is derived from existing revenue sources is not sufficient to cover the proposed appropriations above mentioned and, in pursuance of the provision of section 5 of Commonwealth Act No. 246, the availability of the said appropriations is conditioned on your approval of the following tax measures which I have recommended for enactment and which are expected to produce sufficient additional revenues to cover the same:

1. An act to amend subsection (b) of section 1472 of the Administrative Code by changing the basis of assessment of the specific tax on cigarettes and by increasing the rates of the specific tax on high-priced cigarettes.

2. An act to amend the section 1481 of the Administrative Code, as amended by increasing the rates of the specific tax on high-priced distilled spirits.

3. An act amending Commonwealth Act No. 137, "The Mining Act," by increasing the rates of royalties and ad valorem tax.

4. An act amending the inheritance tax law by increasing the rates of the inheritance tax.

5. An act seeking to impose a tax on capital for every corporation, firm, or association engaged in business in the Philippines.

6. An act amending certain provisions of the income tax law by increasing the rates of super-taxes.

7. An act amending certain provisions of the forestry law by increasing existing forestry charges on timber cut in any public forest or forest reserve in the Philippines.

8. An act amending section 1449 of the Administrative Code by increasing the rates of certain documentary stamp taxes.

9. An act to amend section 1463 of the Administrative Code by imposing a percentage tax on the gross receipts of salvagers and common carriers by water.

In the preparation of the modified budget for 1939, utmost economy has been my earnest objective. As a general rule, requests for increases in the salaries of officials and employees have been denied. The creation of new positions has been limited to those that I consider absolutely necessary for maintaining the efficiency of the public services. I am also determined to effect further economies in the administration of the government by the consolidation of the accounting and auditing services in the bureaus and offices and the elimination of other services that may be found to be nonessential. For carrying out this plan, specific proposals for the enactment of the necessary laws will be submitted to you in the near future.

I wish to state, in this connection, that, in view of the contemplated plan of economic adjustment of the Philippines, I feel it my duty to submit to you a conservative budget and, at the same time, to recommend the enactment of the tax measures creating sources of additional revenues which I have already mentioned, thereby building up a sufficient reserve in the general fund proper which, together with the balance in the coconut oil excise tax fund, could be made available at any time for said purpose, if necessary. To provide further assurance that the Commonwealth government could meet the requirements of such economic readjustment any time that circumstances should demand that it be done, I am recommending the adoption of a provision in the 1939 General Appropriation Act, as well as in the public works bill that is now pending final approval of the National Assembly, which will authorize the President not only to reduce, but also to suspend in toto or in part, any appropriation that may be authorized in the two legislative measures above mentioned.

In the 1939 budget, the arrangement of positions under "salaries and wages" has been changed by readopting the manner and the same were presented in the budgets for 1932 and prior years, instead of following the arrangement thereof which has been used in the budgets for 1933 and subsequent years. The positions are segregated into the different divisions, sections, or other units corresponding to each bureau or office as required by its organization, thereby clarifying the purposes of the appropriations for salaries and wages.

The broad powers, duties, and responsibilities imposed on the President of the Philippines by the Constitution make it extremely difficult to ascertain in advance the exact amount of the appropriations that are needed for the activities of his office, and, for this reason, you have provided in this year's General Appropriation Act the authority to cover any deficit in the appropriations for the Office of the President with any unexpended balance of any other appropriation provided for the executive departments. As the continuance of the exercise of such unlimited power is inadvisable, I am proposing in this budget that the provision be modified by limiting the amount that it authorizes the chief executive to dispose of.

You will note that in the said budget, the appropriations for the payment of pensions to veterans of the Philippine revolution have been converted into a lump sum and increased to ₱50,000. This has been done to make possible a revision of our policy with respect to the granting of pensions to the veterans of the Philippine revolution with a view to providing for more liberal and just pensions to the aged and needy veterans, who are deserving of the help of the government, and to suspend pensions in cases where there may not be any further justification for granting them.

The authority which heretofore has been conferred upon department heads to use the savings from the appropriations for salaries and wages under their respective departments for covering deficits in their appropriations for sundry expenses, for purchase of furniture and equipment and for special purposes, which has appeared in the annual general appropriation acts since 1933, was adopted as an emergency measure in the general appropriation act for said year to make possible the substantial reductions that were then made in the appropriations for sundry expenses, for purchase of furniture and equipment, and for special purposes. Inasmuch as the emergency that made the enactment of such a provision necessary does not now exist and adequate appropriations for said purposes have again been provided, I am proposing the elimination of the provision in question in the modified 1939 budget.

With regard to the income that is derived from the excise tax that is levied and collected in the United States on Philippine coconut oil, I wish to inform you that the noticeable decline in the actual collections of said tax during the last few months has made it necessary that the original estimate of the annual income that is expected from this source, which was placed at ₱30,000,000, be reduced to ₱23,000,000 for 1938.

On December 31, 1937, the unappropriated surplus in the coconut oil excise tax fund amounted to ₱77,619,860.82. This amount does not include the collections for the months of November and December 1937, amounting to ₱4,577,901.28. Adding to these amounts the estimated collections for 1938 of ₱23,000,000, and accrued interest on fixed deposits amounting to ₱1,910,140, there is available this year from this fund the total sum of ₱107,107,902.10.

The 1940 budget—General fund proper.—As I anticipated in my budget message of February 7, 1938, the revenue collections accruing to the general fund proper of the national government substantially declined from ₱96,246,963.12 in 1937

to ₱88,350,981.42 in 1938, a difference of ₱7,895,981.70. Upon the recommendation of the Secretary of Finance, the total ordinary income for the fiscal year ending June 30, 1940, is estimated at ₱85,500,500, which is ₱2,850,481.42 lower than the actual collections realized in 1938 and slightly less than the total estimated income for the calendar year 1939. The decrease in the estimated income is due largely to prevailing business conditions and the expected fall in the collections from import duties and income taxes, and partly to the nonrecurring items of income, such as the refund of the government contributions to the teachers' pension and disability retirement fund, and the transfers from the special funds of the Manila Harbor Board and the Philippine Sugar Administration, which amount to a total of ₱1,138,418.47. The economic factors which caused the reduction of revenue collections in 1938 still exist, and there is as yet no definite indication of improvement in the near future.

The budget for the fiscal year ending June 30, 1940, proposes a total appropriation from the general fund proper of ₱83,406,930 for the ordinary expenses of the national government. This amount is ₱46,034.79 less than the total authorized appropriation for the same purposes for the year 1939, which is ₱83,452,964.79. Despite the increase of ₱1,010,420 in the appropriation for the maintenance of the Philippine Constabulary, the proposed total appropriations are less than those of the preceding year and leaves an unappropriated balance between ordinary income and ordinary expenditures of ₱2,093,570. To accomplish this result, it is necessary to impose forced savings on the appropriations of all departments in the aggregate amount of ₱2,115,865. Moreover, in order to balance the budget, it has been found necessary to defer appropriations for the improvement and expansion of existing public services, including some for which appropriations were authorized in the general appropriation act for the current year and in other laws. I am listing hereunder the services for which no appropriations are provided with the amounts that were appropriated for the current year and those that are needed for the ensuing fiscal year:

Purpose	Amount authorized for 1939	Amount needed for the fiscal year 1940
1. For the opening of new primary schools; for maintaining the existing primary classes in Manila and Baguio; and for aiding municipal districts for the maintenance of intermediate classes where local funds are deficient.....	Pesos 1,000,000	Pesos 5,000,000
2. For strengthening the faculty and improving the facilities for instruction and research in the University of the Philippines and for the support of the College of Arts and Sciences at Baguio.....		632,270
3. Additional aid for scholarships for students for normal and vocational schools of the specially organized provinces so as to extend the benefits thereof to Palawan, Nueva Vizcaya, and the Mountain Province.....		3,800
4. Additional appropriation for the expenses in connection with the holding of national interscholastic and regional athletic meets.....		5,000
5. For the establishment of an R. O. T. C. unit in the Philippine Nautical School.....		11,000
6. For the establishment, operation, and maintenance of branch libraries of the National Library in provincial capitals.....		60,000
7. For the extension of the control and eradication of malaria.....	950,000	890,000
8. For the operation, maintenance, and equipment of 2 pavilions for pay patients, 1 operating-room pavilion for pay patients, nurses home annex, X-ray pavilion, and dispensary in the Philippine General Hospital.....		366,000
9. For the operation of additional traveling X-ray units and combined pneumothorax clinics and tuberculosis dispensaries.....	145,597	145,600
10. For the operation and maintenance of public-health laboratories for the study and investigation of communicable diseases.....	71,500	71,500
11. For the operation and maintenance of offices of epidemiologist in the provinces to make scientific epidemiological studies and investigations of the prevalence of communicable diseases, under the Bureau of Health.....	45,500	45,500
12. Aid to the city of Manila for the construction of public improvements, Commonwealth Act No. 242.....	1,000,000	1,000,000
13. Contribution to the city of Baguio under sec. 2553 (a) of Act No. 2711, as amended, to be spent for the construction of public improvements at the discretion of the Secretary of Public Works and Communications.....	100,000	100,000
14. Additional aid to the Philippine Amateur Athletic Federation for the construction, maintenance, and improvement of athletic fields throughout the Philippines.....		100,000
15. For additional subvention to the steamship company that maintains transportation service between Manila and Batanes to extend transportation facility to Sabtang.....		2,500
16. Additional amount for the organization of scouting parties to locate and fight locusts and to control and eradicate agricultural pests and diseases.....		50,000
17. Additional personnel, sundry expenses, and furniture and equipment for the following departments, bureaus, and offices:		

Purpose	Amount authorized for 1939	Amount needed for the fiscal year 1940
DEPARTMENT OF THE INTERIOR		
Salaries and wages.....	<i>Pesos</i>	<i>Pesos</i>
Furniture and equipment.....		7,680
Additional appropriation for the expenses of the National Information Service.....		3,220
		148,920
DEPARTMENT OF FINANCE		
Salaries and wages.....		21,960
Bureau of Customs, including additional inspectors of hulls and boilers and lightkeepers.....	14,280	
Bureau of Banking.....	7,680	
Sundry expenses, furniture and equipment.....		23,280
DEPARTMENT OF JUSTICE		
Salaries and wages.....		36,160
Office of the Secretary.....	4,800	
Parole Office.....	2,280	
Division of Investigation.....	2,640	
Bureau of Justice.....	9,240	
Courts of First Instance.....	10,000	
Bureau of Prisons.....	4,200	
Court of Industrial Relations.....	3,000	
Sundry expenses, furniture and equipment.....		26,000
DEPARTMENT OF AGRICULTURE AND COMMERCE		
Salaries and wages.....		54,480
Bureau of Plant Industry.....	1,560	
Bureau of Animal Industry.....	7,680	
Bureau of Science.....	16,080	
Bureau of Commerce.....	1,500	
Weather Bureau.....	9,540	
Bureau of Mines.....	18,120	
Sundry expenses, furniture and equipment.....		28,520
DEPARTMENT OF PUBLIC WORKS AND COMMUNICATIONS		
Salaries and wages.....		31,680
Bureau of Posts.....	27,000	
Bureau of Coast and Geodetic Survey.....	4,680	
Sundry expenses, furniture and equipment.....		9,060
DEPARTMENT OF PUBLIC INSTRUCTION		
Salaries and wages.....		962,030
Bureau of Education.....	140,920	
Bureau of Health.....	37,020	
Bureau of Public Welfare.....	3,480	
Bureau of Quarantine Service.....	6,600	
Office of Private Education.....	50,580	
Office of Adult Education for carrying out a 10-year program to reduce illiteracy and to intensify citizenship training and vocational guidance, a plan which calls for an annual appropriation of P700,000 during the first 4 years but to gradually decrease from year to year during the remainder of the period until a minimum of P150,000 is reached in the tenth year.....	572,860	
National Library.....	13,680	
Sundry expenses, furniture and equipment.....		249,860
GENERAL AUDITING OFFICE		
Salaries and wages.....	18,600	
Sundry expenses, furniture and equipment.....	890	
Total.....		10,105,510

Pursuant to the provisions of Commonwealth Act No. 343, the Philippine Constabulary has been separated from the Philippine Army, and to place the former in a condition adequately to maintain internal peace and order, I have authorized an increase of the constabulary force to its regular strength before the army was organized. As already stated, this required an additional outlay of ₱1,010,420 which I am recommending in the budget. Moreover, when the national defense program requiring a yearly appropriation of ₱16,000,000 for a period of 10 years was formulated, it was not contemplated to continue the Philippine Constabulary as a permanent division of the army; the intention was that the function of the constabulary as a police force would be assumed by the projected

national police force. As the organization of a national police force has not been effectuated and the National Assembly has by law authorized the reestablishment of the Philippine Constabulary as an independent organization, it cannot be expected that our national defense program can be carried out as originally planned if the Philippine Army is to be required to continue supporting the constabulary with its appropriations. Accordingly, while in the present budget it is proposed that a substantial portion of the expenses of the constabulary be taken from the army, this is done upon the condition that the amount so spent shall be refunded to the army when funds are available.

With regard to the maintenance of primary schools in chartered cities, municipalities, and municipal districts, and the aid to municipal districts for the maintenance of intermediate schools in accordance with the provisions of Commonwealth Act No. 381, I wish to invite your attention to the fact that due to lack of definite and adequate information on the exact amount needed, the sum of ₱15,000,000 provided in the budget is only a tentative estimate of what is believed necessary for continuing the operation of the classes that now exist. The necessary data are presently being gathered to ascertain the exact amount that will be required. Any amount that may be needed in excess of ₱15,000,000, including whatever may be necessary for carrying out the provisions of Commonwealth Act No. 381 with respect to the cities of Manila and Baguio, for the opening of new classes during the fiscal year ending June 30, 1940, and for aiding municipal districts in the maintenance of intermediate classes, will have to depend on the approval of new taxes.

Your attention is invited to the fact that only ₱300,000 is included in this budget to carry out the provisions of Commonwealth Act No. 359 providing for the payment of pensions to veterans of the Philippine revolutions and wars. Unless the income of the government increases materially, it will not be possible to set aside a larger amount for this purpose.

Likewise, the other items of appropriation listed above will have to be deferred until new sources of revenue are created.

The total appropriations from the general fund proper proposed in the budget for the next fiscal year is ₱84,016,930, including the items for extraordinary expenditures amounting to ₱610,000. These proposed expenditures are for the following purposes:

Purpose	Amount	Percent
1. For public education which includes the expenses for the operation and maintenance of primary, vocational, and special schools and classes, and the University of the Philippines	<i>Pesos</i> 22,797,890	27.13
2. For the national defense including a part of the expenses of the Philippine Constabulary for maintaining internal peace and order (₱3,250,000)	16,449,100	19.58
3. For the sinking funds and interest on the public debt of the National Government	7,999,460	9.52
4. For the protection of the public health, including the expenses of the Bureau of Health; the control and eradication of malaria, tuberculosis, and other diseases; the operation, maintenance, establishment, extension, and improvement of hospitals and public dispensaries	5,726,630	6.82
5. For the operating expenses of industrial and commercial units, including those of the Bureau of Posts, the Bureau of the Treasury, and the Division of Purchase and Supply	5,256,430	6.26
6. For executive direction and control which includes the expenses of the offices of the President, the Secretaries of Departments and the Resident Commissioner to the United States, the General Auditing Office, the Bureau of Civil Service, the Budget Commission, and the Philippine Sugar Administration	5,103,070	6.07
7. For the administration of justice, including the expenses of the Supreme Court, the Court of Appeals, the Courts of First Instance, and the Justice of the Peace Courts	4,094,650	4.87
8. For the revenue collection services, including the expenses of the Bureau of Internal Revenue and the Bureau of Customs	2,545,190	3.03
9. For the development of agriculture, including the expenses of the Bureaus of Plant Industry, Animal Industry, and Lands	2,509,550	2.99
10. For the maintenance of law and order, including the expenses of the Bureau of Justice, part of the expenses of the Philippine Constabulary not included in the Army appropriation, and the expenses of the Department of the Interior for the administration of the local police forces	1,791,030	2.13
11. For the development of commerce, including the expenses of the Bureau of Commerce, the Bureau of Aeronautics, and the Bureau of Coast and Geodetic Survey	1,695,520	2.02
12. For legislation (National Assembly)		
13. For the conservation and utilization of the natural resources, including the expenses of the Bureau of Forestry and the Bureau of Mines	1,245,240	1.48

Purpose	Amount	Percent
14. For the maintenance of prisoners under the Bureau of Prisons and other correctional institutions	<i>Pesos</i> 1,083,630	1.29
15. For other purposes, including the expenses of the Bureau of Public Works, the Securities and Exchange Commission, the Court of Industrial Relations; those for the development and promotion of arts and sciences, the regulation of public services, public charity, protection and relief from public calamities, and publicity	4,054,950	4.83
Total	84,016,930	100.00

The Surplus

During the year 1938 the total ordinary income exceeded the total ordinary expenditures by ₱12,410,395.21. Notwithstanding this excess, however, the unappropriated surplus declined from ₱60,765,168.87 at the end of the year 1937 to ₱39,375,132.62 at the end of the year 1938, because of large appropriations and expenditures for extraordinary purposes.

The construction of public buildings in the government center authorized by Act No. 3597 is now in progress with the erection of the buildings for the Department of Agriculture and Commerce and the Department of Finance. This will be followed by the construction of the justice building and the capitol. To carry on the development of the government center as planned, the unreleased balance of the government center fund, which amounts to ₱9,995,478.56, has been segregated from the unappropriated surplus.

Similarly, the amount of ₱1,221,487.68 advanced to the irrigation fund under Act No. 2152 has been segregated from the unappropriated surplus.

During the period from January 1 to June 30, 1939, the estimated ordinary income will exceed the estimated ordinary expenditures by ₱1,166,930, so that, after making the adjustments resulting from the segregation of the government center fund and the irrigation fund and after deducting the authorized appropriations for extraordinary expenditures for the same period, amounting to ₱705,000, the unappropriated surplus will be further reduced to ₱28,620,096.38.

When the unappropriated balance of ₱2,093,570, which is expected to result from the operation of the general fund proper during the fiscal year ending June 30, 1940, is added to the above mentioned unappropriated surplus, and after deducting therefrom the proposed appropriations for extraordinary expenditures, which amount to a total of ₱610,000, there will be an estimated unappropriated surplus in the fund of ₱30,103,666.38 at the end of the said period.

I wish to emphasize again the necessity of leaving a reasonable surplus in the National Treasury to take care of emergencies, especially at this time when conditions affecting our national economy both within our country and abroad are in a state of uncertainty. Any attempt to further deplete the surplus for other than the most urgent and vital public needs would be extremely inadvisable.

The Coconut Oil Excise Tax Fund

At the close of the year 1937, there was a cash surplus in this fund of ₱82,669,860.82. The total amount of collections and accrued interest credited to the Philippine treasury during the year 1938 amounted to ₱20,486,581.12. Therefore, the total amount available in this fund for 1938 amounted to ₱103,156,441.94. The expenditures during the same year reached a total of ₱31,869,994.70, thus leaving an unexpected cash balance of ₱71,286,447.24 at the end thereof. However, the total outstanding balances of authorized appropriations made against the fund on the said date was ₱110,736,146.71, which is ₱39,449,699.47 greater than the available balance in the fund. No actual deficit was, however, incurred because I authorized the release of only a total of ₱44,678,406.71, under the authority vested in the President to suspend the expenditure of any part or all of the appropriations authorized by Commonwealth Acts Nos. 304, 330, 347, 369, and 403. No part of the sum of ₱11,000,000 appropriated by Commonwealth Act No. 332 has so far been released as the National Abaca and Other Fiber Corporation is still under process of organization. After deducting the sum of ₱44,678,406.71 that has been released from the unexpended cash balance of ₱71,286,447.24, there was a net balance available for release of ₱26,608,040.53 at the end of the year 1938.

A total income of ₱21,513,119.50 is expected to accrue to the Philippine treasury from the excise tax on coconut oil during the 6 months ending June 30, 1939. This amount represents estimated payments during this period, including delayed transfers of collections made during the later part of 1938. A total of ₱48,121,160.03 will, therefore, be available for release during the said period.

It is estimated that the income of the fund during the fiscal year ending June 30, 1940, will amount to ₱25,200,000. The appropriations proposed in the accompanying budget from this fund amount to a total of ₱509,690 and are limited to purposes that are related to economic adjustment. After deducting from this fund all the authorized appropriations chargeable to the same, there will remain only an unappropriated surplus of ₱6,190,760.03 on June 30, 1940. Obviously, the present condition of the coconut oil excise tax fund would not permit further appropriations therefrom, especially if it is considered that the amounts shown as estimated income for 1939 and the fiscal year ending June 30, 1940, will not become available for expenditure until they are actually credited to the Philippine treasury.

The budget presented to you is balanced and shows that the condition of the finances of the Commonwealth government is sound. To maintain this position, it has been necessary to effect substantial economies in expenditures and to limit salary increases as well as the creation of new positions to only those found to be absolutely necessary to insure the efficient operation of the government.

The following table covering estimates of income and expenditures in the general fund was prepared from figures appearing in the 1939 and 1940 budgets of the national government. Minor changes, if any, subsequently made are not considered:

Details	1940 (July 1939- June 1940)	1939 (January- June) revised	1939 (January- December)	1938 (January- December) revised
General fund proper:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Estimated ordinary income.....	85,500,500.00	42,702,680.00	79,309,803.00	80,445,700.00
Estimated ordinary expenditures:				
General.....	73,781,700.00	37,490,910.00	67,943,680.40	68,371,046.91
Fixed.....	9,625,230.00	4,044,840.00	10,032,699.00	10,115,698.00
Total.....	83,406,930.00	41,535,750.00	77,976,379.40	78,486,744.91
Excess of estimated ordinary income over estimated ordinary expenditures.....	2,093,570.00	1,166,930.00	1,333,423.60	1,958,955.09
Add estimated surplus at the beginning of the period.....	28,620,096.38	70,426,220.85	38,060,266.96	80,111,175.64
Total.....	30,713,666.38	71,593,150.85	39,393,690.56	82,070,130.73
Deduct estimated extraordinary expend- itures.....	610,000.00	42,973,054.47	1,854,657.00	44,009,863.77
Estimated surplus at the end of the period—General fund proper.....	30,103,666.38	28,620,096.38	37,539,033.56	38,060,266.96
Estimated income from new taxes.....			(6,412,571.00)	
Conditional appropriations.....			6,412,571.00	
Coconut oil excise tax:				
Estimated income.....	25,200,000.00	21,513,119.50	1,200,000.00	29,488,041.28
Estimated expenditures from current appropriations.....	509,690.00	562,970.00	1,035,925.00	67,979,160.00
Estimated excess of income over expend- itures from current appropriations.....	24,690,310.00	20,950,149.50	164,075.00	(38,491,118.72)
Add estimated surplus at the beginning of the period.....	25,558,190.03	26,608,040.53	161,554.10	77,619,860.82
Total.....	50,248,500.03	47,558,190.03	325,629.10	39,128,742.10
Deduct expenditures from continuing appropriations.....	44,057,740.00	22,000,000.00		38,967,188.00
Estimated surplus at the end of the period—Coconut oil excise tax.....	6,190,760.03	25,558,190.03	325,629.10	161,554.10

To take care of subsequent changes affecting the 1938 budget, the 1938 figures were revised as indicated in the preceding table. The revision resulted in the reduction of the estimated current surplus on December 31, 1938, from ₱52,298,293.99 as originally estimated to ₱38,060,266.96, or a decrease of ₱14,238,027.03. Likewise, 1939 figures were revised due to the change in the government's fiscal year. Both the original and the revised 1939 figures are shown in the table. It should be noted that the estimated current surplus of ₱38,060,266.96 (general fund proper) and ₱161,554.10 (coconut oil excise tax fund) on December 31, 1938, or January 1, 1939, were revised to ₱70,426,-220.85 and ₱26,608,040.53, respectively.

With respect to the coconut oil excise tax, it appears that insofar as appropriations are concerned the provisions of the budget are not observed. From table 10 it will be seen that total appropriations from this fund amounted to more than ₱137,000,000 in 1938 and ₱180,000,000 in 1939.

General appropriation acts for 1939 and 1940.—The 1939 budget became Act 300, approved June 9, 1938; and the 1940 budget became Act 446, approved June 8, 1939. Act 446 for fiscal year 1940 carried total appropriations of ₱74,441,357 (₱699,410 from the coconut oil excise tax fund) and compares with ₱75,584,403.40 (₱1,035,925 from the coconut oil excise tax fund and ₱5,953,871 as "conditional" appropriations) appropriated in Act 300 for 1939, and ₱69,051,310.12 (₱1,037,748 from the coconut oil excise tax fund) appropriated in Act 245 for 1938. None of these figures includes fixed charges such as retirement gratuities under Acts 2589, 4051 and 4151, gratuities under Act 1259, interest and sinking funds on bonded indebtedness, etc., which were estimated at ₱9,625,230 for 1940, ₱10,032,699 for 1939 and ₱10,115,698 for 1938.

To conform with the change in the fiscal year 1939, the approved appropriations under Act 300 were, in general, allocated by the President of the Philippines, under authority of law, with a view to providing funds absolutely necessary for the 6 months ended June 30, 1939. The total amount released during the 6 months amounted to ₱39,982,429. Attention is invited to the fact that section 6 of the general appropriation act (No. 300) for 1939 was repealed by Act 345, approved August 17, 1938. This section provided that the appropriations therein referred to, aggregating ₱5,593,871, "shall not be allowable for expenditure until tax laws authorizing the collection of additional revenues sufficient in amount to cover it are enacted." The repeal of section 6 had the effect of authorizing the "conditional" appropriations without any provision for an estimated revenue to meet them.

Other appropriation acts.—During its sessions in 1938 and its first session in 1939, the National Assembly passed certain acts affecting government finance. Many of them covered expenditures which were recorded as investments.

Following is a list of the acts involving appropriations which were recorded as expenditures or investments. (The section of this report devoted to legislation describes in detail all acts passed by the National Assembly, giving dates of approval and dates when effective.)

Act No.	Particulars	Appropriation
		<i>Pesos</i>
254	Reorganizing the Court of Industrial Relations	55,000.00
259	Reorganizing Supreme Court	90,000.00
260	Appropriating additional amount for purchase of landed estates	¹ 2,000,000.00
266	Providing aid for various relief purposes	1,300,000.00
277	Providing retirement gratuity for the late Judge Mariano Buysson Lampa	20,000.00
282	Purchasing of United States bonds to secure United States against loss or damage to any military or naval stores, etc., loaned to Commonwealth	Indefinite
285	Abolishing the Manila Harbor Board and transferring its duties to Bureau of Customs	42,500.00
294	Regulating the practice of mechanical engineering	2,000.00
296	Transferring branch of College of Liberal Arts of University of Philippines from Ilocos Sur to Baguio	10,000.00
299	Increasing salaries of justices of the peace	363,460.00
300	General Appropriation Act 1939 (P1,035,925 from coconut oil tax fund)	75,584,403.40
304	Reforestation and afforestation of watersheds, denuded areas, etc.	¹ 1,000,000.00
315	Providing additional appropriation for revolving fund of Bureau of Printing	600,000.00
325	Transferring the audit of books and accounts of public services from Public Service Commission to General Auditing Office	25,000.00
330	Public works (P88,688,100 from coconut oil excise tax fund)	96,351,300.00
331	Providing gratuities to justices of the peace	Indefinite
332	Creating a "National Abaca and Other Fiber Corporation" with capital stock of P20,000,000	¹ 11,000,000.00
333	Amending certain provisions of Act 184, creating Institute of National Language (additional appropriation)	50,000.00
337	Authorizing the city of Cebu to issue bonds for sewer facilities	350,000.00
340	Creating an animal utilization service	100,000.00
343	Abolishing the State police force and reorganizing the Philippine Constabulary	3,750,000.00
344	Amending certain provisions of Act 120 creating National Power Corporation (additional appropriation)	300,000.00
346	Appropriating funds for census work, Act 170	¹ 2,190,000.00
347	Appropriating funds for subdivision of agricultural public lands	¹ 2,500,000.00
348	Increasing the number of judges of courts of first instance, etc.	128,000.00
349	Creating a laboratory of meter testing for public utilities, etc., and a reimbursable fund	70,000.00
350	Providing retirement gratuities for provincial fiscals, etc.	Indefinite
354	Providing funds to compensate the Mountain Province for loss in revenue resulting from abolition of road tax	80,000.00
358	Authorizing the government to take over and operate public utilities in certain cases	2,000,000.00
359	Amending Act 288 and providing "pension for veterans for Philippine revolutions or wars"	300,000.00
369	Appropriating funds to reimburse appropriations previously provided for irrigation systems	¹ 4,800,000.00
370	Granting gratuity to widow of the late Judge Pedro Ma. Sison (from appropriation set aside for Department of Justice P13,000)	7,300.00
371	Granting compensation to widow of the late Lt. Col. James B. Ord	950,000.00
375	Amending Act 241, increasing compensation to Provinces, etc., for loss of revenue resulting from abolition of Cedula tax	¹ 1,500,000.00
378	Authorizing president of the Philippines to enter into negotiations with owners of landed estates for purpose of leasing such estates	5,000.00
382	Appropriating funds for printing of original music of Filipino national hymn, etc.	22,500.00
388	Appropriating funds for purposes of Act 325, transferring the audit of the books and accounts of public services to General Auditing Office	350,000.00
389	Authorizing city of Davao to issue bonds for sewer facilities, etc.	400,000.00
398	Creating a cancer institute, etc.	100,000.00
401	Establishing post-graduate courses and fellowships in medicine in University of Philippines	15,000.00
402	Standardizing salaries of government officers and employees, etc.	
403	Creating a revolving loan fund for construction of permanent public markets, slaughterhouses, waterworks, a national markets and waterworks board, and repealing Acts 128 and 216.	¹ 10,000,000.00
413	Providing additional governmental services, personnel, and facilities for law enforcement	500,000.00
414	Authorizing the president of Philippines to conduct negotiations with the United States regarding adjustment of economic and trade relations between the 2 countries	150,000.00
415	Compensating Provinces, sub-Provinces, etc., for loss in revenue resulting from abolition of Cedula tax	2,975,000.00
416	Reimbursing local governments, etc., for expenses incident to second regular elections of members of National Assembly and the plebiscite on women suffrage	2,740,000.00
418	Providing for an agronomical survey of the Philippines	¹ 250,000.00
429	Regarding appointment of Filipinos to United States embassies and consulates in foreign countries	200,000.00
434	Vesting in treasurer of Philippines certain powers over trusts and charitable uses	Indefinite
441	Creating a national land settlement administration with capital stock (P4,000,000 from coconut oil tax fund)	20,000,000.00
442	Providing for transfer of University of the Philippines to a site outside city of Manila	¹ 17,500,000.00
446	General appropriation act for fiscal year ending June 30, 1940 (P699,410 from coconut oil tax fund)	74,441,357.00

¹ From coconut oil excise tax fund. For additional information concerning these appropriations see table 10 and related comments on pp. 90-95 of this report.

Act No.	Particulars	Appropriation
		<i>Pesos</i>
450	Providing for promotion of livestock industry	500,000.00
451	Creating legislative service office of National Assembly	100,000.00
455	Regarding government property insurance (additional appropriation)	50,000.00
458	Creating a reserve bank with capital stock (P2,000,000 from coconut oil tax fund)	5,000,000.00
459	Creating an agricultural and industrial bank with capital stock	150,000,000.00
467	Providing additional funds for operation of Philippine government for fiscal year ending June 30, 1940	3,490,045.00
468	Creating advance funds for general revision of real property assessment in provinces	2,000,000.00
469	Appropriating funds for certain public works (P5,295,086.60 from coconut oil excise tax fund)	8,180,000.00

¹ From coconut oil excise tax fund. For additional information concerning these appropriations see table 10 and related comments on pp. 90-95 of this report.

Revenue acts.—Those acts which directly affect government revenues are described below. The most significant of these acts were Act 466, which revised and codified the internal revenue laws to take effect July 1, 1939, and Act 465, which created an annual residence tax effective January 1, 1940. It was anticipated that the passage of Act 466 would bring about an additional income to the government of between ₱15,000,000 and ₱20,000,000 annually. Act 465 was expected to produce revenues equivalent to the former cedula tax.

Act No.

- 255 Section 3: Abolishing the road tax imposed by section 2158 of Act 2711.
- 381 Providing for a school tax, under certain conditions, for the support of primary and intermediate education.
- 396 Providing for the levying of special assessments to cover the cost of the construction, improvement or repair of national roads within the city of Manila.
- 411 Restoring the specific tax on fermented liquors to its former rate (from 12½ centavos to 10 centavos on each liter of volume capacity).
- 464 Remitting, under certain conditions, unpaid taxes and penalties on forfeited real property.
- 465 Creating an annual residence tax.
- 466 Revising and codifying the internal revenue laws of the Philippines.
- 471 Amending certain provisions of Act 4003 relating to fish and other aquatic resources of the Philippines.
- 472 Revising the general authority granted municipal councils and municipal district councils to levy taxes, under certain limitations.

Financial Statements

The various financial statements included in the Second Annual Report of the High Commissioner (tables 1 to 9) covered financial data for the periods: January 1–November 14, 1935; January 1–December 31, 1935; January 1–December 31, 1936; and January 1–December 31, 1937. The corresponding data in the present report cover the periods: January 1–December 31, 1937; January 1–December 31, 1938; and January 1–June 30, 1939. In many cases the appropriation sections of the various acts are indefinite as to the amounts to be spent and the periods of expenditures. Some appropriations cover as much as 4-year programs; many carry the provision that no expenditures under the act shall be made until the Secretary of Finance or the Auditor General shall have certified that funds are available, and until the President of the Philippines shall have approved the release; and some are otherwise conditioned on the approval of the President of the Philippines. Consequently, many of the acts may well be described as “conditional” or “contingent” appropriations.

TABLE 1.—*Statement showing relation of appropriations to disbursements in the general fund for the fiscal years 1937, 1938, and (January-June) 1939*¹

Details	1939 (January-June)	1938	1937
ANNUAL AUTHORIZATIONS AND DISBURSEMENTS			
	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
General appropriations.....	42,066,666.33	72,040,141.67	55,959,625.00
Definite appropriations offset by receipts.....	377,286.45	619,200.40	616,722.34
Public works appropriations.....	5,680,000.00	99,501,300.00	11,310,000.00
Permanent appropriations.....	11,026,789.55	12,611,666.35	10,866,803.78
Investments.....	6,000,000.00	36,995,550.50	11,000,000.00
Other extraordinary expenditures.....	15,115,000.00	28,437,440.23	10,747,480.52
Total authorized appropriations.....	80,265,742.33	250,205,299.15	100,500,631.64
Add balance of continuing appropriations, Jan. 1.....	141,872,985.10	24,786,180.84	18,485,336.68
Total authorizations for the year.....	222,138,727.43	274,991,479.99	118,985,968.32
Deduct:			
Actual expenditures out of current appropriations.....	47,938,136.46	110,328,649.97	75,984,807.62
Actual expenditures out of continuing appropriations.....	31,054,539.89	15,095,841.66	9,145,025.41
Appropriations transferred to special and other funds.....		4,481,439.28	7,423,145.84
Total actual expenditures.....	78,992,676.35	129,905,930.91	92,552,978.87
Excess of authorizations over actual expenditures.....	143,146,051.08	145,085,549.08	26,432,989.45

¹ Data from annual reports of the Auditor General.² Includes P252,429.54 unexpended balance of appropriation for the Philippine Sugar Administration, Act 236, transferred from the special fund, Jan. 1, 1938.

Table 1 compares appropriations or authorizations with actual disbursements in the general fund. In 1938 the total appropriations of the national government¹⁰ reached the unprecedented sum of P274,991,479.99, an increase of more than 100 per centum over the total appropriations in 1937. Of this sum P24,786,180.84 comprised continuing appropriations carried over from previous years. All classes of authorizations increased, particularly those for public works, which increased from P11,310,000 in 1937 to P99,501,300 in 1938. For general purposes, the increase was from P55,959,625 to P72,040,141.67; for investments, from P11,000,000 to P36,995,550.50; and for other extraordinary expenditures, from P10,747,480.52 to P28,437,440.23. Authorizations for 1939 (exclusive of P141,872,985.10 continuing appropriations from previous years) totaled P80,265,742.33. However, this sum did not include the following appropriations from the coconut oil excise tax fund:

Act 442, approved June 3, 1939, for a part of the expenses to be incurred in transfer of the University of the Philippines to a new site outside the city of Manila.....	<i>Pesos</i> 9,000,000
Act 458, approved June 9, 1939, for part capitalization of a reserve bank (subject to approval of the President of the United States).....	2,000,000
Act 459, approved June 9, 1939, for capitalization of an agricultural and industrial bank.....	150,000,000
	161,000,000

The total authorizations for the period January 1-June 30, 1939, although covering only a 6-month period, were far greater than those

¹⁰ The term "national government" as used in Philippine financial reports refers to the fiscal organization and activities of the central government as distinguished from those of the provinces, municipalities, and cities insofar as the latter concern local taxes and appropriations by local boards and councils.

in 1938 or any previous year in the history of the Philippine Government.

Excluding the above enumerated appropriations from the coconut oil excise tax fund, but including continuing appropriations, the excess of authorizations over actual expenditures was ₱26,432,989.45 in 1937; ₱145,085,549.08 in 1938; and ₱143,146,051.08 in 1939. Actual expenditures were ₱92,552,978.87 in 1937, and ₱129,905,930.91 in 1938. During the first half of 1939, actual expenditures were ₱78,992,676.35.

TABLE 2.—Statement showing actual receipts and disbursements, or result of operations in the general fund for the fiscal years 1937, 1938, and (January-June) 1939¹

Details	1939 (January-June)	1938	1937
RESULT OF OPERATIONS			
Actual receipts:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Import duties.....	10,617,086.80	20,861,100.34	25,298,943.57
Excise tax.....	8,317,941.58	15,585,379.94	15,528,488.73
License and business tax.....	10,728,880.08	21,626,535.54	20,578,689.48
Income tax.....	10,114,982.47	11,905,222.51	16,053,475.64
Other revenue from taxation.....	1,752,087.82	3,268,153.85	4,179,995.86
Total revenue from taxation.....	41,530,978.75	73,246,392.18	81,639,593.28
Less internal revenue returned to local governments (sec. 491, Act 2711).....	1,582,041.77	3,164,083.55	3,164,083.55
Net revenue from taxation.....	39,948,936.98	70,082,308.63	78,475,509.73
United States internal revenue received.....	535,199.39	1,315,662.27	1,422,830.28
Coconut oil excise tax:			
Collections transferred from United States.....	25,552,493.26	17,688,592.84	2 111,179,383.32
Interest on deposits in United States.....	204,858.90	2,797,988.28	
Other revenues and transfers in.....	8,125,437.29	16,953,010.525	16,348,623.11
Total receipts.....	74,366,925.82	108,837,562.545	207,426,346.44
General fund proper.....	48,609,573.66	88,350,981.425	96,246,963.12
Coconut oil excise tax.....	25,757,352.16	20,486,581.12	111,179,383.32
Actual disbursements:			
Salaries and wages.....	20,619,031.37	34,477,024.16	29,004,479.41
Other administrative disbursements.....	10,512,117.84	14,867,759.70	10,834,574.28
Contributions to local governments.....	12,295,399.26	24,903,688.62	12,435,495.06
Pensions and gratuities.....	1,030,749.41	1,777,028.23	1,726,420.74
Outlays and investments.....	19,777,194.45	18,034,360.89	14,139,726.43
Public debt service.....	3,250,594.84	8,196,818.86	8,065,084.63
Public works.....	8,565,245.69	23,138,082.58	8,876,920.13
Other charges and transfers out.....	2,942,343.49	4,511,167.87	7,470,278.19
Total disbursements.....	78,992,676.35	129,905,930.91	92,552,978.87
General fund proper.....	65,608,505.64	98,035,936.21	90,883,456.37
Coconut oil excise tax.....	13,384,170.71	31,869,994.70	1,669,522.50
Excess of receipts over disbursements.....	(4,625,750.53)	(21,068,368.365)	114,873,367.57
General fund proper.....	(16,998,931.98)	(9,684,954.785)	32,203,506.75
Coconut oil excise tax.....	12,373,181.45	(11,383,413.58)	82,669,860.82

¹ Data from annual reports of the Auditor General.

² Only ₱95,507,227.30 represented actual transfer in 1937, while the balance, ₱15,672,156.02, was collections taken up but not transferred until 1938.

Table 2 reports 1938 income at ₱108,837,562.545 as compared with 1937 income of ₱207,426,346.44—a decrease of ₱98,588,783.895. Of this decrease ₱7,895,981.695 was in respect to income of the general fund proper and ₱90,692,802.20 was in respect to income from the coconut oil excise tax. The total income during the first half of 1939 was ₱74,366,925.82. Dividing income between that derived from

usual sources, the "general fund proper," and that received from the coconut oil excise tax, the following comparison is evident:

Year	Source of income, amount and ratio			
	General fund proper		Coconut oil excise tax	
	Amount (millions of pesos)	Ratio (percent)	Amount (millions of pesos)	Ratio (percent)
1937.....	196.2	46.38	111.2	53.62
1938.....	88.4	81.18	20.5	18.82
1939 (half-year).....	48.6	65.36	25.8	34.64

¹ Excluding ₱26,840,000 from the coconut oil excise tax fund shown as "replenishment" of the general fund proper.

Partial explanations for the 1938 decrease in income from usual sources include the drop of ₱4,437,843.23 in customs revenue and the liquidation of previous boom conditions in the local gold stocks market. However, general license and business tax collections increased in 1938 by ₱1,047,846.06.

The extraordinary income (i. e., the income of the coconut oil excise tax fund) showed a decrease in 1938 of ₱90,692,802.20 as indicated above. This decline does not represent a decrease of actual collections of the coconut oil excise tax in 1938 as compared with collections in 1937, since the figures reported covered only amounts transferred to or taken up in the books of the Treasurer of the Philippines. The amounts recorded in 1937 included a part of the collections for that year and the accumulated collections of the 3 previous years. The figures for 1938 reflected only a portion of the collections for that year, plus the interest paid on coconut oil excise tax moneys deposited in the United States Treasury.

Expenditures from the general fund during 1938 totaled ₱129,905,930.91 (from the general fund proper, ₱98,035,936.21; from coconut oil excise taxes, ₱31,869,994.70). This sum compares with expenditures of ₱92,552,978.87 in 1937 (from the general fund proper, ₱90,883,456.37; from coconut oil excise taxes, ₱1,669,522.50, exclusive of the ₱26,840,000 "replenishment"). In 1939, expenditures amounted to ₱78,992,676.35 (from the general fund proper, ₱65,608,505.64; from coconut oil excise taxes, ₱13,384,170.71).

With the exception of "Other charges and transfers out" (showing a decrease of ₱2,959,110.32), all items of expense registered substantial increases during 1938. The increase in salaries and wages amounted to ₱5,472,544.75; in other administrative disbursements, ₱4,033,185.42; in contributions to local governments, ₱12,468,193.56; in outlays and investments, ₱3,894,634.46; and in public works, ₱14,261,162.45.

The increases in salaries and wages and other administrative disbursements were caused largely by: restoration of the 1932 salary and wage rates (Act 245); increase of personnel; grants to local governments to cover losses in revenue formerly derived by them from the cedula and road taxes (Acts 241 and 354); grants for relief purposes (Acts 90, 239, and 266); aid to the city of Manila for the construction of a city hall (Acts 149 and 242); and aid to local

schools. The subscription to the capital stock of the National Development Co. and the purchase of equipment, chiefly for the Philippine Army, mainly accounted for the increase in outlays and investments. The most striking increase was in public works. Expenditures for public works were authorized under: Acts 240 (construction of school buildings); 67 and 330 (public works projects); and 330 which appropriated over ₱88,000,000 from the coconut oil tax fund for a 4-year program of public works. During the first 6 months of 1939 ₱19,777,194.45 was spent for outlays and investments. Included in this sum was the purchase of United States bonds amounting to ₱12,539,500 under Act 282.

The result of over-all operations in the general fund during 1938 was a deficit of ₱21,068,368.365 (general fund proper, ₱9,684,954.785; coconut oil excise tax fund, ₱11,383,413.58). This contrasts unfavorably with the operating surplus of ₱114,873,367.57 during 1937 (general fund proper, ₱32,203,506.75 including the ₱26,840,000 replenishment; coconut oil excise tax fund, ₱82,669,860.82). However, it should be noted that expenditures from the general fund during 1938 were not all directly chargeable against the current income of that year. A portion thereof, ₱15,095,841.66 (general fund proper, ₱10,501,391.66; coconut oil excise tax fund ₱4,594,450), was authorized by continuing appropriations and, from one point of view, was chargeable to the surplus accumulated from previous years. If these extraordinary items were eliminated, the operating expenses of the general fund proper for 1938 would fall within 1938 current income. Operations for the first 6 months of 1939 reflected a deficit of ₱4,625,750.53 in the general fund (an operating surplus of ₱12,373,181.45 in the coconut oil excise tax fund and an operating deficit of ₱16,998,931.98 in the general fund proper).

TABLE 3.—*Statement showing condensed balance sheets of the general fund for the fiscal years 1937, 1938, and 1939*¹

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Assets:			
Cash:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
General fund proper	72, 146, 040. 485	84, 844, 589. 675	91, 759, 896. 43
Coconut oil excise tax	85, 659, 628. 69	70, 427, 767. 48	82, 669, 860. 82
	157, 805, 669. 175	155, 272, 357. 155	174, 429, 757. 25
Other current assets:			
General fund proper	4, 691, 320. 83	5, 034, 175. 43	5, 418, 466. 74
Coconut oil excise tax		858, 679. 76	
	4, 691, 320. 83	5, 892, 855. 19	5, 418, 466. 74
Deferred charges	319, 544. 67	599, 660. 72	297, 910. 93
Total assets:			
General fund proper	77, 156, 905. 985	90, 478, 425. 825	97, 476, 274. 10
Coconut oil excise tax	85, 659, 628. 69	71, 236, 447. 24	82, 669, 860. 82
	162, 816, 534. 675	161, 764, 873. 065	180, 146, 134. 92
Liabilities and surplus:			
Current liabilities:			
Deferred credits	25, 326, 215. 87	19, 774, 955. 41	17, 039, 735. 75
Total liabilities	403, 401. 24	277, 249. 56	325, 362. 71
Total liabilities	25, 729, 617. 11	20, 052, 204. 97	17, 365, 098. 46
Released appropriated current surplus:			
General fund proper	16, 607, 417. 91	25, 880, 499. 40	13, 730, 189. 97
Coconut oil excise tax	41, 357, 457. 25	38, 186, 121. 26	
	57, 964, 875. 16	64, 066, 620. 66	13, 730, 189. 97

See footnote at end of table.

TABLE 3.—Statement showing condensed balance sheets of the general fund for the fiscal years 1937, 1938, and 1939¹—Continued

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Liabilities and surplus—Continued.			
Unreleased appropriated current surplus:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
General fund proper	7,387,771.64	5,256,338.99	5,753,561.33
Coconut oil excise tax	76,482,051.55	72,550,025.45	5,050,000.00
	83,869,823.19	77,806,364.44	10,803,561.33
Unappropriated current surplus:			
General fund proper	17,402,727.585	27,289,163.015	47,989,828.08
Coconut oil excise tax	(32,179,880.11)	(39,449,699.47)	77,619,860.82
	(14,777,152.525)	(12,160,536.455)	125,609,688.90
Reserve for determined losses	363,705.63	363,691.03	360,369.84
Reserve for government center	9,665,666.11	11,636,528.42	12,277,226.42
Total current surplus:			
General fund proper	51,427,288.875	70,426,220.855	80,111,175.64
Coconut oil excise tax	85,659,628.69	71,286,447.24	82,669,860.82
	137,086,917.565	141,712,668.095	162,781,036.46
Total liabilities and surplus:			
General fund proper	77,156,905.985	90,478,425.825	97,476,274.10
Coconut oil excise tax	85,659,628.69	71,286,447.24	82,669,860.82
	162,816,534.675	161,764,873.065	180,146,134.92

¹ Data from annual reports of the Auditor General.

The condensed balance sheets of the general fund for 1937, 1938, and the first half of 1939 are set out in table 3. Because of operating deficits detailed in table 2, the accumulated total current surplus declined from ₱162,781,036.46 at the end of 1937 to ₱141,712,668.095 at the end of 1938 and to ₱137,086,917.565 on June 30, 1939. The accumulated total current surplus at the end of 1937 and 1938 was almost equally divided between the general fund proper and the coconut oil excise tax fund; but, by June 30, 1939, the accumulation in the general fund proper had declined to ₱51,427,288.875, while that of the coconut oil excise tax fund had increased to ₱85,659,628.69.

At the end of 1937, the coconut oil excise tax fund showed ₱77,619,860.82 unappropriated. Excessive appropriations during 1938 and 1939 altered radically the condition of the account so that on June 30, 1939, recorded appropriations exceeded by ₱32,179,880.11 the unappropriated current surplus account of this fund.

TABLE 4.—Statement showing cash position of the general fund on Dec. 31, 1937, Dec. 31, 1938, and June 30, 1939¹

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
CASH POSITION			
Total cash accounts:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
General fund proper	72,146,040.485	84,844,539.675	91,759,896.43
Coconut oil excise tax	85,659,628.69	70,427,767.48	82,669,860.82
	157,805,669.175	155,272,357.155	174,429,757.25
Deduct—Total current liabilities and deferred credits	25,729,617.11	20,052,204.97	17,365,098.46
Excess of cash over current liabilities and deferred credits:			
General fund proper	46,416,423.375	64,792,384.705	74,394,797.97
Coconut oil excise tax	85,659,628.69	70,427,767.48	82,669,860.82
	132,076,052.065	135,220,152.185	157,064,658.79

¹ Data from annual reports of the Auditor General.

TABLE 4.—*Statement showing cash position of the general fund on Dec. 31, 1937, Dec. 31, 1938, and June 30, 1939*¹—Continued

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
CASH POSITION—continued			
Deduct—continuing appropriations:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
General fund proper.....	23,995,189.55	31,136,838.39	24,533,751.30
Coconut oil excise tax.....	117,839,508.80	110,736,146.71	
	141,834,698.35	141,872,985.10	24,533,751.30
Reserve for determined losses.....	363,705.63	363,691.03	360,369.84
Reserve for government center.....	9,665,666.11	11,636,528.42	12,277,226.42
Cash advances to money order fund.....	5,929,429.30	6,617,738.16	6,712,165.00
Cash advances to irrigation fund.....	1,488,597.37	1,483,009.20	1,471,978.86
	159,282,096.76	161,973,951.91	45,355,491.42
Excess of cash over current liabilities, deferred credits, continuing appropriations, reserves for determined losses and government center and advances to money order fund and irrigation fund:			
General fund proper.....	4,973,835.415	13,554,579.505	29,039,306.55
Coconut oil excise tax.....	(32,179,880.11)	(40,308,379.23)	82,669,860.82
	(27,206,044.695)	(26,753,799.725)	111,709,167.37

¹ Data from annual reports of the Auditor General.

The comparative cash position of the general fund is shown in table 4. The cash position is figured as the excess of cash over current liabilities, deferred credits, continuing appropriations, reserves for determined losses and government center and advances to the money order fund and irrigation fund. On this basis the cash position declined from a positive figure of ₱111,709,167.37 on December 31, 1937, to a negative figure of ₱27,206,044.695 on June 30, 1939. The condition was due in large part to excessive appropriations from the coconut oil excise tax fund during 1938 and the early part of 1939. In the general fund proper there was a decline in the cash position from ₱29,039,306.55 at the end of 1937 to ₱4,973,835.415 on June 30, 1939. Further, if consideration be given to the transfer on October 30, 1937, of ₱26,840,000 from the coconut oil excise tax fund to "replenish the current surplus of the general fund proper," and if this replenishment be eliminated, the cash position in the general fund proper would have been less than 3 million pesos at the end of 1937—a cash deficit of over 13 million pesos at the end of 1938 and a cash deficit of ₱21,866,164.585 on June 30, 1939.

TABLE 5.—*Statement showing actual receipts and disbursements, or result of operations, in the special fund for the fiscal years 1937, 1938, and (January-June) 1939*¹

Details	1939 (January-June)	1938	1937
RESULT OF OPERATIONS			
Actual receipts:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Excise tax (sec. 1495, Act 2711, as amended).....	4,846,734.96	8,790,533.71	6,228,736.75
License and business tax, etc. (Act 3045, as amended).....	3,770,997.32	4,528,522.03	4,157,168.06
Wharfage fees (Act 3592, as amended).....	2,077,006.50	3,504,469.01	3,370,781.33
	10,694,738.78	16,823,524.75	13,756,686.14

See footnote at end of table.

TABLE 5.—*Statement showing actual receipts and disbursements, or result of operations, in the special fund for the fiscal years 1937, 1938, and (January-June) 1939*¹—Continued

Details	1939 (January-June)	1938	1937
RESULTS OF OPERATIONS—continued			
Actual receipts—continued.			
Less:			
Motor vehicle fund apportioned to local governments (Act 3992).....	Pesos 500,000.00	Pesos 800,000.00	Pesos -----
Gasoline fund apportioned to local governments (Act 3248).....	850,000.00	1,950,000.00	-----
	1,350,000.00	2,750,000.00	-----
Net revenue from taxation.....	9,344,738.78	10,073,524.75	13,756,686.14
Other revenues and transfers in.....	7,292,332.09	13,597,897.69	10,825,041.13
Total receipts.....	16,637,070.87	27,671,422.44	24,581,727.27
Actual disbursements:			
Salaries and wages.....	2,192,799.43	4,102,651.95	3,201,868.35
Other administrative disbursements.....	1,248,953.66	2,477,865.42	1,714,479.49
Contributions to local governments.....	85,779.15	1,035,798.14	11,601,717.89
Pensions and gratuities.....	39,097.79	171,950.83	19,895.82
Outlays and investments.....	749,688.52	763,359.40	835,478.74
Public works.....	4,012,956.72	4,414,393.37	6,361,053.12
Other charges and transfers out.....	668,723.93	1,566,443.05	1,406,990.84
Total disbursements.....	8,998,004.20	14,532,462.16	25,191,484.25
Excess of receipts over disbursements.....	7,639,066.67	13,138,960.28	(609,756.98)

¹ Data from annual reports of the Auditor General.TABLE 6.—*Statement showing condensed balance sheets of the special fund for the fiscal years 1937, 1938, and 1939*¹

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Assets:	Pesos	Pesos	Pesos
Cash.....	39,103,078.40	31,085,156.37	20,818,592.67
Other current assets.....	35,168,637.96	33,513,204.36	27,120,703.04
Deferred charges.....	685,124.44	679,391.89	552,341.71
Total assets.....	74,956,840.80	65,277,752.62	48,491,637.42
Liabilities and surplus:			
Current liabilities.....	6,253,780.00	5,381,346.96	6,429,739.46
Deferred credits.....	16,572,753.45	15,405,164.98	10,709,617.56
Total liabilities.....	22,826,533.45	20,786,511.94	17,139,357.02
Released appropriated current surplus.....	49,306,773.02	43,305,910.85	27,894,049.27
Unreleased appropriated current surplus.....	2,772,013.85	1,133,809.35	3,402,675.65
Reserve for determined losses.....	51,520.48	51,520.48	55,555.48
Total current surplus.....	52,130,307.35	44,491,240.68	31,352,280.40
Total liabilities and surplus.....	74,956,840.80	65,277,752.62	48,491,637.42

¹ Data from annual reports of the Auditor General.

Tables 5 and 6 refer to the special fund, the former showing actual receipts and disbursements, and the latter, balance sheets for the fiscal years 1937, 1938, and 1939. During 1938, receipts in the special fund amounted to ₱27,671,422.44, which compares with ₱24,581,727.27 during 1937. Of these amounts, ₱3,688,299.05 and ₱2,641,008.04, respectively, were transfers from the general fund. If the apportionment to local governments from motor vehicle and gasoline funds under acts of the Philippine legislature 3992 and 3248 amounting to ₱2,750,000 be treated as disbursements and not as

reduction of income, as is the present practice, the total receipts in 1938 would amount to ₱30,421,422.44 instead of ₱27,671,422.44. Increased revenues in 1938 (over ₱2,500,000 of which was from local excise taxes) were due largely to higher rates imposed on manufactured oils and other fuels by Act 122; to larger collections from the specific tax on gasoline; and to substantial profits from the operation of the government marine railway and repair shops and the Bureau of Printing.

Expenditures from the special fund during 1938 aggregated ₱14,532,462.16, which compares with expenditures of ₱25,191,484.25 in 1937. The chief reason for this decline was the fact that many local roads were converted into national roads in 1938, and the cost of repair and maintenance of these roads was no longer reflected as contributions to local governments in disbursements from the special fund. Expenditures for public works registered a decrease of ₱1,946,659.75 in 1938, which was due mainly to reduction in disbursements for the construction of ports. These and other minor decreases were partly offset by an increase of ₱1,664,169.53 in salaries and wages, and other administrative disbursements. Receipts during the first 6 months of 1939 totaled ₱16,637,070.87, and expenditures amounted to ₱8,998,004.20.

The excess of receipts over disbursements in the special fund in 1938 was ₱13,138,960.28, which contrasts with an excess of disbursements over receipts of ₱609,756.98 in 1937. The accumulated or current surplus of the special fund increased from ₱31,352,280.40 on December 31, 1937, to ₱44,491,240.68 on December 31, 1938, and to ₱52,130,307.35 on June 30, 1939, as shown on table 6.

TABLE 7.—*Statement showing actual receipts and disbursements, or result of operations, in the bond fund for the fiscal years 1937, 1938, and (January-June) 1939, together with corresponding condensed balance sheets*¹

Details	1939 (January-June)	1938	1937
RESULT OF OPERATIONS			
Actual receipts.....	<i>Pesos</i> 240,320.00	<i>Pesos</i> 453,803.88	<i>Pesos</i> 506,520.00
Actual disbursements.....	240,320.00	453,803.88	506,520.00
BALANCE SHEET			
	June 30	Dec. 31	Dec. 31
Assets:			
Cash.....	1,112,629.12	(23,370.88)	(73,742.00)
Other current assets.....	8,932,000.00	10,068,000.00	10,118,371.12
Deferred charges.....	120,962.88	120,962.88	120,962.88
Total assets.....	10,165,592.00	10,165,592.00	10,165,592.00
Liabilities and surplus:			
Current liabilities.....	9,592.00	9,592.00	9,592.00
Released appropriated current surplus.....	10,156,000.00	10,156,000.00	10,156,000.00
Total current surplus.....	10,156,000.00	10,156,000.00	10,156,000.00
Total liabilities and surplus.....	10,165,592.00	10,165,592.00	10,165,592.00

¹ Data from annual reports of the Auditor General.

Table 7 concerns the operation of the bond fund for the fiscal years 1937, 1938, and 1939. The bond fund reflects activities arising from the investment of the proceeds of the financial interest-protection bonds issued under act of the Philippine legislature 2999, as amended, amounting to ₱10,156,000. This fund is invested in local bonds, and the interest earned, which amounts to around ₱500,000 annually, constitutes its only source of income. The excess of receipts over disbursements is automatically reverted to the general fund at the end of the year.

TABLE 8.—Statement showing actual receipts and disbursements, or result of operations, in the consolidated general, special, and bond funds for the fiscal years 1937, 1938, and (January-June) 1939¹

Details	1939 (January-June)	1938	1937
RESULT OF OPERATIONS			
Actual receipts:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Import duties.....	10,617,086.80	20,861,100.34	25,298,943.57
Excise tax.....	13,164,676.54	24,375,913.65	21,757,225.48
License and business tax.....	14,499,877.40	26,155,057.57	24,735,857.54
Income tax.....	10,114,982.47	11,905,222.51	16,053,475.64
Wharfage fees (Act 3592, as amended).....	2,077,006.50	3,504,469.01	3,370,781.33
Other revenue from taxation.....	1,752,087.82	3,268,153.85	4,179,995.86
Total revenue from taxation.....	52,225,717.53	90,069,916.93	95,396,279.42
Less:			
Internal revenue returned to local governments (Sec. 491, Act 2711).....	1,582,041.77	3,164,083.55	3,164,083.55
Gasoline fund apportioned to local governments (Act 3248).....	850,000.00	1,950,000.00	-----
Motor vehicle fund apportioned to local governments (Act 3992).....	500,000.00	800,000.00	-----
	2,932,041.77	5,914,083.55	3,164,083.55
Net revenue from taxation.....	49,293,675.76	84,155,833.38	92,232,195.87
United States internal revenue received.....	535,199.39	1,315,662.27	1,422,830.28
Coconut oil excise tax:			
Collections transferred from United States.....	25,552,493.26	17,688,592.84	² 111,179,383.32
Interest on deposits in United States.....	204,858.90	2,797,988.28	-----
Other revenue.....	12,222,251.47	25,456,211.075	23,319,172.54
Total receipts.....	87,808,478.78	131,414,287.845	228,153,582.01
Other funds.....	62,051,126.62	110,927,706.725	116,974,198.69
Coconut oil excise tax.....	25,757,352.16	20,486,581.12	111,179,383.32
Actual disbursements:			
Salaries and wages.....	22,811,830.80	38,579,676.11	32,206,347.76
Other administrative disbursements.....	11,761,076.50	17,345,625.12	12,549,054.19
Contributions to local governments.....	13,260,257.79	40,537,986.76	28,853,267.95
Pensions and gratuities.....	1,069,847.20	1,948,979.06	1,746,316.56
Outlays and investments.....	20,526,882.97	18,797,720.29	15,025,205.17
Public debt service.....	3,250,594.84	8,196,818.86	8,065,084.63
Public works.....	11,699,123.03	12,953,975.95	10,421,918.25
Other charges.....	415,549.51	982,913.78	5,022,776.91
Total disbursements.....	84,795,162.64	139,343,695.93	113,889,971.42
Other funds.....	71,410,991.93	107,473,701.23	112,220,448.92
Coconut oil excise tax.....	13,384,170.71	31,869,994.70	1,669,522.50
Excess of receipts over disbursements.....	3,013,316.14	(7,929,408.085)	114,263,610.59
Other funds.....	(9,359,865.31)	3,454,005.495	31,593,749.77
Coconut oil excise tax.....	12,373,181.45	(11,383,413.58)	82,669,800.82

¹ Data from annual reports of the Auditor General.

² Only ₱95,507,227.30 represented actual transfer in 1937, while the balance, ₱15,672,156.02, was collections taken up but not transferred until 1938.

TABLE 9.—*Statement showing condensed balance sheets of the consolidated general, special, and bond funds for the fiscal years 1937, 1938, and 1939*¹

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Assets:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Cash.....	198,021,376.695	186,334,142.645	195,174,607.92
Other current assets.....	48,791,958.79	49,474,059.55	42,657,540.90
Deferred charges.....	1,125,631.99	1,400,015.49	971,215.52
Total assets.....	247,938,967.475	237,208,217.685	238,803,364.34
Liabilities and surplus:			
Current liabilities.....	31,589,587.87	25,165,894.37	23,479,067.21
Deferred credits.....	16,976,154.69	15,682,414.54	11,034,980.27
Total liabilities.....	48,565,742.56	40,848,308.91	34,514,047.48
Released appropriated current surplus.....	117,427,648.18	117,528,531.51	51,780,239.24
Unreleased appropriated current surplus.....	86,641,837.04	78,940,173.79	14,206,236.98
Unappropriated current surplus.....	(14,777,152.525)	(12,160,536.455)	125,609,688.90
Reserve for determined losses.....	415,226.11	415,211.51	415,925.32
Reserve for government center.....	9,665,666.11	11,636,528.42	12,277,226.42
Total current surplus.....	199,373,224.915	196,359,908.775	204,289,316.86
Total liabilities and surplus.....	247,938,967.475	237,208,217.685	238,803,364.34

¹ Data from annual reports of the Auditor General.

Tables 8 and 9 show the combined receipts, expenditures, and result of operations of the general, special, and bond funds for the fiscal years 1937, 1938, and 1939. Consolidated receipts in the three funds were ₱228,153,582.01 in 1937; ₱131,414,287.845 in 1938; and ₱87,808,478.78 in 1939. Consolidated expenditures in the three funds were ₱113,889,971.42 in 1937; ₱139,343,695.93 in 1938; and ₱84,795,162.64 in 1939. The consolidated accumulated current surplus of the Philippines on December 31, 1937, was ₱204,289,316.86, an adjustment of the overstatement of ₱2,646,444.88 in the excise tax collections in 1937 having been made. Due to the excess of expenditures over receipts in 1938 this surplus was reduced to ₱196,359,908.775 on December 31, 1938. The account stood at ₱199,373,224.915 on June 30, 1939.

Coconut Oil Excise Tax Funds

The "automatic" periodic appropriation to the Philippine Islands of receipts from the levy of a 3-cent per pound tax on coconut oil shipped to the United States from the Philippine Islands or extracted in the United States from copra of Philippine origin was established under section 602½ of the Revenue Act of 1934. These appropriations averaging around ₱33,200,000 annually, equalling from a fifth to a third of the income from indigenous sources, exerted a far-reaching influence on Philippine finance.

Original collections of the coconut oil tax are made in the United States by the Bureau of Internal Revenue and deposited in the United States Treasury in an account captioned "Philippine trust fund—Coconut oil tax." From this account and subsequent to occasional refunds to taxpayers the amounts are periodically transferred to another account in the United States Treasury captioned "Treasurer of the Philippines—General fund account—Time deposit" on which interest is paid at the rate of 2 per centum per annum. Requests signed by the Treasurer of the Philippines, the Secretary of Finance of the Philippines, and the president of the Commonwealth are presented to effectuate transfers from the time deposit account to other

accounts of the Treasurer of the Philippines, such as accounts with the Chase National Bank of New York, the treasury certificate fund account, etc. These requests must be made 90 days prior to transfer. No transfer of these funds was made to the Philippine Treasurer until July 1, 1937, due to litigation as to the constitutionality of the levy and transfer to the Commonwealth, which was finally decided in favor of the Commonwealth by the Supreme Court of the United States in *Haskins Brothers and Company v. Morgenthau, Secretary of the Treasury, et al.*, decision rendered May 3, 1937.

Table 10 is included to show the actual receipts and the character of expenditure of funds derived from the coconut oil excise tax since its inauguration.

TABLE 10.—*Coconut oil excise tax fund: collections, transfers, and other receipts, appropriations, expenditures, and balances up to Aug. 31, 1939 (including transfer of Sept. 8, 1939)*

Collections deposited with the U. S. Treasury in account captioned "Philippine trust fund—coconut oil tax" as reported to the Office of the United States High Commissioner from June 10, 1934, to Aug. 31, 1939:		Pesos
Total gross collections.....	173,912,452.94	
Less total refund of taxes previously collected.....	2,400,000.00	
Total net collections.....	171,512,452.94	
Transfers from "Philippine trust fund—coconut oil tax" account to "Treasurer of the Philippines—general fund account—time deposit" account up to Sept. 8, 1939 (net collections for the period June 10, 1934, to May 31, 1939).....	163,538,502.34	
Other receipts:		
Interest on coconut oil excise tax funds deposited in the U. S. Treasury and credited to the Philippine government within the periods below stated:		
Up to Dec. 31, 1938.....	2,797,988.28	
Jan. 1 to Aug. 31, 1939.....	204,858.90	
Total, other receipts.....	3,002,847.18	
Total net collections and "other receipts".....	174,515,300.12	
Total transfers and "other receipts".....	166,541,349.52	

APPROPRIATIONS AND EXPENDITURES KNOWN OR REPORTED TO THIS OFFICE

Purpose	Appropriations		Expenditures	Balance Dec. 31
	Continuing Jan. 1	Current		
FISCAL YEAR (CALENDAR) 1937				
To replenish the current surplus of the general fund proper (P2,000,000 reverted. See entry under fiscal year 1939)	Pesos	Pesos	Pesos	Pesos
		126,840,000.00	26,840,000.00	
Subscription to stock of the Manila Railroad Co.		1,300,000.00	1,300,000.00	
Restoration and replacement of sinking fund investment in Manila Railway Co. and Philippine Railway Co. bonds.		369,522.50	369,522.50	
For construction of school buildings, etc., Commonwealth Act 240.		5,050,000.00		5,050,000.00
Total (for 1937).....		33,559,522.50	28,509,522.50	5,050,000.00
FISCAL YEAR (CALENDAR) 1938				
Construction of school buildings, etc., Commonwealth Act 240.	5,050,000.00		4,594,450.00	455,550.00
Aid to city of Manila, Commonwealth Act 242.		1,000,000.00	936,640.00	63,360.00
General Appropriation Act 245 for 1938 (P1,037,748 less P165,257.09 reverted)		1,872,490.91	872,490.91	

See footnotes at end of table.

APPROPRIATIONS AND EXPENDITURES KNOWN OR REPORTED TO THIS OFFICE—
CONTINUED

Purpose	Appropriations		Expenditures	Balance Dec. 31
	Continuing Jan. 1	Current		
FISCAL YEAR (CALENDAR) 1938				
Subscription to stock of the Manila Railroad Co.	<i>Pesos</i>	<i>Pesos</i> 2,000,000.00	<i>Pesos</i> 2,000,000.00	<i>Pesos</i>
Purchase of landed estates, Commonwealth Act 269		2,000,000.00		2,000,000.00
Reforestation and afforestation, etc., Commonwealth Act 304		1,000,000.00	56,101.96	943,898.04
Public works, Commonwealth Act 330		88,688,100.00	11,899,008.74	76,789,091.26
Subscription to stock of the National Abaca Corporation, Commonwealth Act 332		11,000,000.00		11,000,000.00
Additional appropriation for the Census Office, Commonwealth Act 346		2,100,000.00		2,100,000.00
Survey of public lands, Commonwealth Act 347		2,500,000.00	90,252.59	2,409,747.41
Reimbursement of irrigation funds, Commonwealth Act 369		4,800,000.00	10,000.00	4,790,000.00
Lease of landed estates, etc., Commonwealth Act 378		1,500,000.00		1,500,000.00
Loan revolving fund for construction of public markets, etc., Commonwealth Act 403		10,000,000.00	1,315,500.00	8,684,500.00
Subscription to stock of the National Development Co.		10,095,550.00	10,095,550.00	
Total (for 1938)	5,050,000.00	137,556,141.41	31,869,994.70	110,736,146.71
FISCAL YEAR (JAN. 1-JUNE 30) 1939				
Construction of school buildings, Commonwealth Act 240	455,550.00		157,150.00	298,400.00
Aid to the city of Manila, Commonwealth Act 242	63,360.00		63,360.00	
Purchase of landed estates, Commonwealth Act 260	2,000,000.00			2,000,000.00
General Appropriation Act No. 300 for 1939 and Executive Order No. 190 (P562,970 less P120,523.80 reverted)		2 442,446.20	442,446.20	
Reforestation and afforestation, etc., Commonwealth Act 304	943,898.04		320,485.66	623,412.38
Public works, Commonwealth Act 330	76,789,091.26		4,950,799.82	71,838,291.44
Subscription to stock of the National Abaca Corporation, Commonwealth Act 332	11,000,000.00			11,000,000.00
Additional appropriation for the Census Office, Commonwealth Act 346	2,100,000.00		2,100,000.00	
Survey of public lands, Commonwealth Act 347	2,409,747.41		169,421.56	2,240,325.85
Reimbursement of irrigation funds, Commonwealth Act 369	4,790,000.00			4,790,000.00
Lease of landed estates, Commonwealth Acts 378 and 420	1,500,000.00		1,496,007.47	3,992.53
Loan revolving fund for construction of public markets, etc., Commonwealth Act 403	8,684,500.00		1,684,500.00	7,000,000.00
Agronomical survey, Commonwealth Act 418		250,000.00		250,000.00
Subscription to stock of the Manila R. R. Co.		2,000,000.00	2,000,000.00	
Creation of the National Land Settlement Administration, Commonwealth Act 441		4,000,000.00		4,000,000.00
Transfer of the University of the Philippines to Diliman, Commonwealth Act 442		17,500,000.00		17,500,000.00

See footnotes at end of table.

APPROPRIATIONS AND EXPENDITURES KNOWN OR REPORTED TO THIS OFFICE—
CONTINUED

Purpose	Appropriations		Expenditures	Balance June 30
	Continuing Jan. 1	Current		
FISCAL YEAR (JAN. 1-JUNE. 30, 1939)— continued				
General Appropriation Act for 1940, Commonwealth Act 446, as follows:				
Office of the president:				
Aid to the Manila R. R. Co. for the expenses in the promo- tion of the tourist trade in the Philippines	Pesos	Pesos 100,000.00	Pesos	Pesos 100,000.00
Department of Finance:				
For the acquisition and equip- ment of a speed launch for use of the Bureau of Science in connection with the enforce- ment of the laws on fishing, and for expenses of its opera- tion, including the salaries and wages of personnel		189,720.00		189,720.00
Department of Agriculture and Commerce:				
For the reforestation and affor- estation of watersheds, den- uded areas, and cogon or open lands within forest reserves, communal forests, national parks and timber lands, sand dunes, and other public forests, Commonwealth Act 119		224,710.00		224,710.00
To encourage and facilitate the survey and subdivision of public lands, Act 4031 and Commonwealth Act 166		134,980.00		134,980.00
For salaries of such supple- mentary personnel, sundry expenses, and purchase of furniture and equipment as may be necessary in connec- tion with the research activi- ties of the Bureau of Science		50,000.00		50,000.00
Part capitalization of a reserve bank, Commonwealth Act 458		2,000,000.00		2,000,000.00
Capitalization of an agricultural and industrial bank, Commonwealth Act 459		150,000,000.00		150,000,000.00
For certain public works, Common- wealth Act 469, as follows:				
For roads and bridges, public buildings, water projects and miscellaneous works for Provinces and cities		4,916,000.00		4,916,000.00
For water projects, roads and bridges, hydraulic investigation and sea protection works for the National Government		379,086.60		379,086.60
Total for (Jan. 1 to June 30) 1939	110,736,146.71	182,186,942.80	13,384,170.71	279,538,918.80
Reversion of appropriation for construc- tion of waterworks under Act 125 replenished in 1937, according to Act 403. See Annual Report of Auditor General ended June 30, 1939		(2,000,000.00)	(2,000,000.00)	
PART FISCAL YEAR 1940 (JULY 1-AUG. 31, 1939)				
Construction of school buildings, Com- monwealth Act 240	Balance July 1, 1939 298,400.00		97,300.00	Balance Aug. 31, 1939 201,100.00
Purchase of landed estates, Common- wealth Act 260	2,000,000.00			2,000,000.00
Reforestation and afforestation, etc., Commonwealth Act 304	623,412.38		26,283.21	597,129.17

APPROPRIATIONS AND EXPENDITURES KNOWN OR REPORTED TO THIS OFFICE—
CONTINUED

Purpose	Appropriations		Expenditures	Balance Aug. 31
	Continuing Jan. 1	Current		
PART FISCAL YEAR 1940 (JULY 1- AUG. 31, 1939—continued)				
	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Public works, Commonwealth Act 330	71,838,291.44	-----	2,524,684.15	69,313,607.29
Subscription to stock of the National Abaca Corporation, Commonwealth Act 332	11,000,000.00	-----	-----	11,000,000.00
Additional appropriation for the Census Office, Commonwealth Act 346	-----	-----	(153,229.94)	153,229.94
Survey of public lands, Commonwealth Act 347	2,240,325.85	-----	22,226.70	2,218,099.15
Reimbursement of irrigation funds, Commonwealth Act 369	4,790,000.00	-----	-----	4,790,000.00
Lease of landed estates, Commonwealth Acts 378 and 420	3,992.53	-----	3,992.53	-----
Loan revolving fund for construction of public markets, etc., Commonwealth Act 403	7,000,000.00	-----	-----	7,000,000.00
Agronomical survey, Commonwealth Act 418	250,000.00	-----	555.12	249,444.88
Creation of the National Land Settle- ment Administration, Common- wealth Act 441	4,000,000.00	-----	2,000,000.00	2,000,000.00
Transfer of the University of the Philip- pines to Diliman, Commonwealth Act 442	17,500,000.00	-----	-----	17,500,000.00
General Appropriation Act for 1940, Commonwealth Act 446 (for details, see above, fiscal year 1939)	699,410.00	-----	24,132.51	675,277.49
Part capitalization of a reserve bank, Commonwealth Act 458	2,000,000.00	-----	-----	2,000,000.00
Capitalization of an Agricultural and Industrial Bank, Commonwealth Act 459	150,000,000.00	-----	25,000,000.00	125,000,000.00
For certain public works, Common- wealth Act 469 (for details see above fiscal year 1939)	5,295,086.60	-----	1,500.00	5,293,586.60
Subscription to stock of the National Development Co.	-----	2,000,000.00	2,000,000.00	-----
Total (for July 1—Aug. 31, 1939)	279,538,918.80	2,000,000.00	31,547,444.28	249,991,474.52
Grand total of "current" appre- priations and expenditures as of Aug. 31, 1939	-----	353,302,666.71	103,311,132.19	-----
Excess of "current" appropriations over net collections and "other receipts"	-----	-----	-----	178,787,306.59
Excess of "current" appropriations over net transfers and "other receipts"	-----	-----	-----	186,761,257.19

¹ Detailed appropriations reported in 1937 annual report.² Detailed appropriations reported in 1937 annual report revised by Executive Order No. 190 of the President of the Philippines due to change of government fiscal year as provided for in Commonwealth Act 373.

Up to August 31, 1939, the total net collections amounted to ₱171,512,452.94. Of this amount, a total of ₱163,538,502.34 covering net collections up to May 31, 1939, plus accumulated interest of ₱3,002,847.18 on coconut oil excise tax funds deposited in the United States Treasury, or a total of ₱166,541,349.52, was credited and transferred to the Commonwealth Government. Total appropriations of coconut oil funds on August 31, 1939, amounted to ₱353,302,666.71. Total expenditures of ₱103,311,132.19 were recorded as of August 31, 1939. On August 31, 1939, the excess of appropriations over transfers and other receipts amounted to ₱186,761,257.19 and the excess

of transfers and other receipts over expenditures amounted to ₱63,230,217.33.

Comment on the general situation created by reason of the availability of the coconut oil excise tax funds will be found under "Recommendations and conclusions respecting government finance and banking," pages 126-128 of this report.

The Public Debt

The Philippine public debt has been consistently kept within reasonable limits and of recent years its servicing has not cost over 10 percent of the ordinary revenues. The bulk of the debt is held in the United States. All issues floated before the inauguration of the Commonwealth have been protected by the Government of the United States by means of a provision of the Tydings-McDuffie Act setting aside for its liquidation all revenue derived from the export taxes prescribed in the act. Unless there should be radical changes not now anticipated in the trade relations between the United States and the Philippine Islands, the income from the export taxes should prove ample to cover the intended liquidation.

TABLE 11.—*Amount of the administratively authorized, issued, and uncovered bonded public debt of the Philippine Commonwealth and accumulated sinking funds pertaining thereto as of Dec. 31, 1937, Dec. 31, 1938, and June 30, 1939*¹

Details	June 30, 1939	Dec. 31, 1939	Dec. 31, 1937
AUTHORIZED			
	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
National direct issues.....	151,350,000.00	151,350,000.00	151,350,000.00
National issues against local government bonds.....	17,815,600.00	17,815,600.00	17,815,600.00
Local government direct issues.....	10,440,000.00	10,440,000.00	12,440,000.00
Total public debt authorized.....	179,605,600.00	179,605,600.00	181,605,600.00
ISSUED			
National direct issues.....	130,450,000.00	130,450,000.00	129,950,000.00
National issues against local government bonds.....	16,567,000.00	16,567,000.00	16,567,000.00
Local government direct issues.....	1,920,000.00	1,920,000.00	3,920,000.00
Total public debt issued.....	148,937,000.00	148,937,000.00	150,437,000.00
ACCUMULATED SINKING FUNDS			
National direct issues.....	60,183,434.48	58,854,423.77	54,286,775.29
National issues against local government bonds.....	8,575,054.93	8,200,686.49	7,279,043.15
Local government direct issues.....	595,527.75	562,039.32	2,550,003.50
Total sinking funds.....	69,354,017.16	67,617,149.58	64,115,821.94
Net public debt uncovered.....	79,582,982.84	81,319,850.42	86,321,178.06
Composition of the sinking funds:			
Cash.....	4,001,067.16	5,761,657.26	4,392,329.62
Annuity receivable.....		106,542.32	106,542.32
Investments and securities.....	26,129,950.00	22,525,950.00	24,017,950.00
Canceled bonds, Act 3014.....	39,223,000.00	39,223,000.00	35,599,000.00
Total sinking funds.....	69,354,017.16	67,617,149.58	64,115,821.94

¹ Data from annual reports of the Auditor General and the Treasurer of the Philippines.

TABLE 12.—*Bonded public debt of the Philippine Commonwealth outstanding as of June 30, 1939, showing amounts thereof issued, redeemable before maturity, and maturing, 1909 to 1968*¹

Year	Issued		Redeemable before maturity		Amount maturing
	Amount	Year of maturity	Amount	Year of maturity	
	<i>Pesos</i>		<i>Pesos</i>		<i>Pesos</i>
1909.....	3,000,000	1939			
1911.....	250,000	1941			
1916.....	8,000,000	1946			
1919.....	170,000	1949	3,000,000	1939	
1921.....	20,000,000	1941	250,000	1941	
1922.....	79,600,000	1952			
1922.....	5,500,000	1950			
1925.....	6,000,000	1955			
1926.....	4,269,000	1956	8,000,000	1946	
1927.....	3,228,000	1957			
1928.....	4,220,000	1958			
1929.....	6,500,000	1959	170,000	1949	
1930.....	2,850,000	1960			
1931.....	500,000	1961			
1933.....	1,277,700	1963			
1935.....	1,500,000	1965	6,000,000	1955	
1936.....	1,072,300	1966	1,953,000	1956	
1937.....	500,000	1967	222,000	1957	
1938.....	500,000	1968			
June 30, 1939.....	148,937,000		19,595,000		
1939.....					3,000,000
1941.....			500,000	1961	20,250,000
1945.....			1,000,000	1965	
July 4, 1946.....	148,937,000		21,095,000		23,250,000
1946 (Dec. 1).....					8,000,000
1947.....			500,000	1967	
1948.....			500,000	1968	
1949.....					170,000
1950.....					5,500,000
1952.....					79,600,000
1955.....					6,000,000
1956.....					4,269,000
1957.....					3,228,000
1958.....					4,220,000
1959.....					6,500,000
1960.....					2,850,000
1961.....					500,000
1963.....					1,277,700
1965.....					1,500,000
1966.....					1,072,300
1967.....					500,000
1968 (Apr. 1).....					500,000
Apr. 1, 1968.....	148,937,000		22,095,000		148,937,000

¹ Data from annual reports of the Auditor General and the Treasurer of the Philippines.

Tables 11 and 12 show the details of the public debt as of June 30, 1939, with comparisons for December 31, 1938, and 1937. The total public debt was reduced from ₱150,437,000 on December 31, 1937, to ₱148,937,000 as of December 31, 1938, and June 30, 1939. The decrease of ₱1,500,000 was due to the redemption on January 2, 1938, of ₱2,000,000, third series, of the Manila sewer and waterworks bonds (Act of the Philippine Legislature 1323), less the issue on April 1, 1938, of ₱500,000, sixth series, of the Metropolitan Water District purchase bonds (Act of the Philippine Legislature 3255).

The net public debt uncovered (total public debt less accumulated sinking funds) decreased from ₱86,321,178.06 on December 31, 1937, to ₱81,319,850.42 on December 31, 1938, and was computed at ₱79,582,982.84 on June 30, 1939. As shown in table 12, a total of ₱19,595,000 out of the standing debt is redeemable (10 years after issue) before maturity, and may now be redeemed, if desired. After applying the accumulated sinking funds to the outstanding debt, there remained a net public debt uncovered of ₱86,321,178.06 as of December 31, 1937, ₱81,319,850.42 as of December 31, 1938, and ₱79,582,982.84 as of June 30, 1939, or a total reduction of ₱6,738,195.22.

This statement of the public debt does not include any of the bonded or long-term debt of the Manila Railroad Co.

Currency Circulation and Reserves

The currency of the Philippines has remained since the Commonwealth, as before, legally tied to the United States dollar at the practical rate of 2 pesos for \$1. Very naturally, during the years of American occupation there has occurred a broadened use and greatly increased volume of credit currency. However, basic conditions of the Philippine Islands are such that currency in circulation is of relatively greater importance than in countries such as the United States where short-term and long-term credits have become preponderant.

Reserves have been strictly maintained and there has at no time in recent years been the slightest distrust of the soundness of the Philippine monetary system.

Currency legislation.—Bill 3943 affecting the exchange standard fund was submitted to me by the President of the Philippines on September 26, 1938, for transmittal to the President of the United States under section 2 (a) (9) of the Tydings-McDuffie Act. The bill sought to exclude Treasury certificates issued against dollar reserves on deposit in the United States from the computation of currency against which a minimum of 15 percent (standard of 25 percent) coverage is required in the exchange standard fund. The increasing use of the Treasury certificate and the transfer of the treasury certificate reserves to the Treasury of the United States has produced a situation which the Commonwealth termed "a duplication (of reserve) and hence without any purpose." It could not be denied that the reserves appeared redundant. The bill had the approval of the Secretary of Finance, the Commissioner of the Budget, the Auditor General, and the chairman of the National Economic Council.

In considering all the factors involved I found substantial reasons which led me to recommend that the reserves be not weakened by the approval of bill 3943. Some of the background leading me to this conclusion is set forth on pages 74, 76, 77, 91, and 92 of my 1937 report. My recommendation was concurred in by the Treasury and State Departments. As mentioned elsewhere in this report, the Commonwealth Government withdrew bill 3943 by resolution of the National Assembly, May 8, 1939.

TABLE 13.—*Statement of Philippine currency issued and in circulation and its composition at end of fiscal years 1937, 1938, and 1939*¹

Particulars	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
SUMMARY			
Net circulation in hands of the public.....	<i>Pesos</i> 162,885,872.24	<i>Pesos</i> 172,654,397.22	<i>Pesos</i> 161,489,426.39
In Philippine Treasury legally available for circulation (pertaining to the general fund and other operating funds of the government).....	27,483,417.86	32,304,449.82	17,520,166.13
Estimated destroyed or unknown.....	665,855.00	665,855.00	652,800.00
In bank vaults legally available for circulation.....	716,905.00	479,045.00	1,783,890.00
In circulation and legally available for circulation.....	191,752,050.10	206,103,747.04	181,446,282.52
In Philippine Treasury but not legally available for circulation.....	18,854,213.02	18,843,319.57	18,865,934.70
Currency issued.....	210,606,263.12	224,947,066.61	200,312,217.22
COINS			
Net circulation in hands of the public.....	22,110,758.77	22,205,787.75	22,202,645.92
In Philippine Treasury legally available for circulation (pertaining to the general fund and other operating funds of the government).....	442,441.86	356,521.82	153,679.13
Estimated destroyed or unknown.....	104,040.00	104,040.00	102,000.00
In circulation and legally available for circulation.....	22,657,240.63	22,666,349.57	22,458,325.05
In Philippine Treasury but not legally available for circulation:			
Pertaining to exchange standard fund.....	4,252,934.02	3,557,464.57	2,010,270.70
Pertaining to treasury certificate fund.....	14,601,279.00	15,285,855.00	16,855,664.00
Total.....	18,854,213.02	18,843,319.57	18,865,934.70
Coins issued.....	41,511,453.65	41,509,669.14	41,324,259.75
TREASURY CERTIFICATES			
Net circulation in hands of the public.....	134,673,770.00	142,451,394.00	127,609,788.00
In Philippine Treasury legally available for circulation (pertaining to the general fund and other operating funds of the government).....	27,040,976.00	31,947,928.00	17,366,487.00
Estimated destroyed or unknown.....	364,140.00	364,140.00	357,000.00
In circulation and legally available for circulation.....	162,078,886.00	174,763,462.00	145,333,275.00
Treasury certificates issued.....	162,078,886.00	174,763,462.00	145,333,275.00
NOTES OF THE BANK OF THE PHILIPPINE ISLANDS			
Net circulation in hands of the public.....	2,163,580.00	2,517,140.00	3,397,210.00
In bank vaults legally available for circulation.....	194,805.00	441,245.00	161,990.00
Estimated destroyed or unknown.....	41,615.00	41,615.00	40,800.00
In circulation and legally available for circulation.....	2,400,000.00	3,000,000.00	3,600,000.00
Notes issued.....	2,400,000.00	3,000,000.00	3,600,000.00
NOTES OF THE PHILIPPINE NATIONAL BANK			
Net circulation in hands of the public.....	3,937,763.47	5,480,075.47	8,279,782.47
In bank vaults legally available for circulation.....	522,100.00	37,800.00	1,621,900.00
Estimated destroyed or unknown.....	156,060.00	156,060.00	153,000.00
In circulation and legally available for circulation.....	4,615,923.47	5,673,935.47	10,054,682.47
Notes issued.....	4,615,923.47	5,673,935.47	10,054,682.47

¹ From annual reports of the treasurer of the Philippines.TABLE 14.—*Statement of Philippine currency reserve funds and their ratio to currency in circulation at end of fiscal years 1937, 1938, and 1939*¹

Particulars	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
EXCHANGE STANDARD FUND			
Assets:			
In Philippine Treasury:			
In Philippine currency less outstanding warrants, pesos.....	4,227,435.49	3,572,135.18	2,006,669.27
In United States currency, equivalent to pesos.....	1,898,815.02	5,492,798.94	3,736,448.54
Total in Philippine Treasury, equivalent to pesos.....	6,126,250.51	9,064,934.12	5,743,117.81

See footnote at end of table.

TABLE 14.—Statement of Philippine currency reserve funds and their ratio to currency in circulation at end of fiscal years 1937, 1938, and 1939¹—Con.

Particulars	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
EXCHANGE STANDARD FUND			
Assets—Continued.			
On deposit in the United States:			
United States Treasury, demand, dollars.....	5,667,071.42	5,123,321.42	4,188,432.54
United States Treasury, time, dollars.....	12,725,000.00	12,725,000.00	12,725,000.00
Chase National Bank, demand, dollars.....	2,722,004.93	1,315,945.59	3,020,815.33
East Tennessee National Bank, time, dollars.....	1,344.31	1,344.31	1,344.31
Total on deposit in United States, dollars.....	21,115,420.66	19,165,611.32	19,935,592.18
Total on deposit in United States, pesos.....	42,230,841.32	38,331,222.64	39,871,184.36
Cash surplus, pesos.....	48,357,091.83	47,396,156.76	45,614,302.17
Other assets, pesos.....	1,447,333.94	1,419,697.21	1,109,232.04
Total assets, pesos.....	49,804,425.77	48,815,853.97	46,723,534.21
Liabilities and surplus:			
Accounts payable, etc., pesos.....	248,954.42	274,629.39	118,421.54
Surplus, pesos.....	49,555,471.35	48,541,224.58	46,605,112.67
Total liabilities and surplus, pesos.....	49,804,425.77	48,815,853.97	46,723,534.21
TREASURY CERTIFICATE FUND			
Assets:			
In Philippine Treasury, silver pesos and half pesos, pesos.....	14,601,279.00	15,285,855.00	16,855,668.00
On deposit in United States:			
United States Treasury, demand, dollars.....	32,088,803.50	38,088,803.50	31,588,803.50
United States Treasury, time, dollars.....	41,650,000.00	41,650,000.00	32,650,000.00
Total on deposit in United States, dollars.....	73,738,803.50	79,738,803.50	64,238,803.50
Total on deposit in United States, pesos.....	147,477,607.00	159,477,607.00	128,477,607.00
Cash balance—total assets, pesos.....	162,078,886.00	174,763,462.00	145,333,275.00
Liabilities and surplus: Reserve for outstanding treasury certificates, pesos.....	162,078,886.00	174,763,462.00	145,333,275.00
TOTAL CURRENCY RESERVES			
Cash surplus in exchange standard fund, pesos.....	48,357,091.83	47,396,156.76	45,614,302.17
Cash balance in treasury certificate fund, pesos.....	162,078,886.00	174,763,462.00	145,333,275.00
Total reserves, pesos.....	210,435,977.83	222,159,618.76	190,947,577.17
Exchange standard fund ratio:			
Cash surplus in exchange standard fund, pesos.....	48,357,091.83	47,396,156.76	45,614,302.17
Government circulation (total of coins and treasury certificates in circulation and available for circulation), pesos.....	184,736,126.63	197,429,811.57	167,791,600.05
Ratio of cash surplus in exchange standard fund to government circulation (minimum legal limit, 15 percent), percent.....	26.2	24.0	27.2
Revertible from cash surplus in exchange standard fund to general fund (excess over 25 percent of government circulation), pesos.....	2,173,060.17	(1,961,296.15)	3,666,402.16
Total reserve ratio:			
Total reserves, pesos.....	210,435,977.83	222,159,618.76	190,947,577.17
Net circulation in hands of the public, pesos.....	162,885,872.24	172,654,397.22	161,489,426.39
Ratio of total reserves to net circulation, percent.....	129.2	128.7	118.2

¹ From annual reports of the Treasurer of the Philippines.

Tables 13 and 14 are designed to present every necessary detail as to the currency and reserves of the Philippines on June 30, 1939, with comparisons as of December 31, 1937, and 1938. The net circulation in the hands of the public rose from ₱161,489,426.39 on December 31, 1937, to ₱172,654,397.22 on December 31, 1938. The increase of ₱11,164,970.83 was due mainly to government expenditures, particularly those payable from the coconut oil excise tax fund. An increase in treasury certificates of about ₱15,000,000 and a slight increase in coins were partly offset by relatively heavy declines in bank notes. Currency legally available for circulation, but not in the hands of the

public, increased over ₱13,000,000 between December 31, 1937, and December 31, 1938. .

Since the beginning of 1938, the monetary circulation in the Philippines has been steadily rising. Prior to January 1938, the maximum circulation was recorded on May 31, 1920, at ₱162,788,637.54. Monthly records of circulation in 1938 all show figures in excess of the May 31, 1920, figure. Circulation in 1938 reached the year's low at ₱163,747,978.37 in February, and the year's high at ₱183,743,001.82 in August. Circulation in hands of the public on June 30, 1939, amounted to ₱162,885,872.24.

As indicated in table 14, the cash surplus of the exchange standard fund recorded moderate increases from ₱45,614,302.17 on December 31, 1937, to ₱47,396,156.76 on December 31, 1938, and to ₱48,357,091.83 on June 30, 1939. The ratio of this fund to government circulation dropped by 3.2 percent on December 31, 1938, and by 1 percent on June 30, 1939, from the position on December 31, 1937, of 27.2 percent. The minimum legal ratio is 15 percent and the standard legal position is 25 percent.

The cash balance of the treasury certificate fund increased ₱29,-430,187 between December 31, 1937, and December 31, 1938. A very large part of this fund is deposited in the United States Treasury. The ratio of the combined cash reserves to the net circulation in hands of the public was 118.2 percent on December 31, 1937, 128.7 percent on December 31, 1938, and 129.2 percent on June 30, 1939.

Banking

The banking system in the Philippines consists of 15 institutions, of which 2 opened during the period under review: The Philippine Bank of Commerce, organized by Philippine citizens, and the Manila branch of the Bank of Taiwan, Ltd., whose head office is at Taihoku, Taiwan. A classified list of the 15 institutions follows, with indication of their total resources as reported by the bank commissioner for June 30, 1939:

<i>Banks</i>	<i>Resources (Pesos)</i>
United States National Bank:	
National City Bank of New York-----	31,769,490.78
Philippine government-owned banks:	
Philippine National Bank-----	¹ 167,358,633.38
Philippine Postal Savings Bank-----	19,523,412.72
Domestic banks and trust companies:	
Bank of the Philippine Islands-----	39,785,580.47
Philippine Trust Co-----	13,438,547.78
China Banking Corporation-----	28,969,823.55
Peoples Bank & Trust Co-----	12,389,120.52
Philippine Baank of Commerce-----	2,461,901.47
Domestic savings and mortgage banks:	
Monte de Piedad and Savings Bank-----	10,117,284.35
Savings Bank of the Commonwealth-----	577,688.62
Foreign banks:	
Chartered Bank of India, Australia, and China-----	26,057,656.42
Hong Kong and Shanghai Banking Corporation-----	47,254,463.37
Yokohama Specie Bank, Ltd-----	10,513,342.61
Nederlandsch Indische Handelsbank, N. Y.-----	4,481,870.35
The Bank of Taiwan, Ltd-----	1,334,448.92

¹ Due to adjustment of certain contingent assets, this figure is somewhat different from that of the auditor of the Philippine National Bank and reported elsewhere herein.

The principal items of resources and liabilities of the banks listed above are shown in table 15, following:

TABLE 15.—*Abridged financial statements of individual banks as of June 30, 1939*

	Cash	Loans, dis- counts, and overdrafts	Stocks, bonds, and securities	Due from banks	Other resources	Capital stock
	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
United States National Bank: National City Bank of New York	2,327, 113.85	15, 755, 337.02	3.00	12, 038, 459.79	748, 577.12	
Philippine Government-owned banks: Philippine National Bank	32, 495, 028.06	79, 990, 007.51	35, 509, 361.99	15, 450, 547.51	3, 913, 083.31	10, 000, 000.00
Philippine Postal Savings Bank	1, 623, 733.97		17, 794, 688.15	7, 039.13	97, 948.87	
Total	34, 118, 704.03	79, 990, 007.51	53, 304, 050.14	15, 457, 586.64	4, 011, 037.18	10, 000, 000.00
Domestic banks and trust companies: Bank of the Philippine Islands	7, 760, 420.70	23, 365, 673.80	1, 243, 737.50	3, 952, 750.55	3, 462, 997.92	6, 750, 000.00
Philippine Trust Co.	986, 262.71	6, 142, 317.72	1, 549, 356.82	2, 317, 481.45	2, 443, 129.08	1, 000, 000.00
China Banking Corporation	6, 754, 781.20	7, 772, 377.60	593, 718.67	4, 120, 564.56	9, 728, 381.52	5, 713, 300.00
Peoples Bank & Trust Co.	3, 313, 373.41	4, 555, 907.77	1, 224, 024.98	1, 906, 895.32	1, 388, 919.04	1, 000, 000.00
Philippine Bank of Commerce	302, 641.56	1, 134, 022.06		539, 683.62	485, 557.23	600, 000.00
Total	19, 117, 479.58	42, 970, 298.95	4, 610, 837.97	12, 837, 375.50	17, 508, 984.79	15, 063, 300.00
Domestic savings and mortgage banks: Monte de Piedad and Savings Bank	313, 311.79	3, 911, 874.58	1, 051, 570.26	1, 037, 060.44	3, 803, 467.28	
Savings Bank of the Commonwealth	103, 453.39	248, 645.49		189, 341.14	36, 248.60	200, 000.00
Total	416, 765.18	4, 160, 520.07	1, 051, 570.26	1, 226, 401.58	3, 839, 715.88	200, 000.00
Foreign banks: Chartered Bank of India, Australia, and China	2, 594, 505.69	12, 286, 493.63		5, 655, 953.93	5, 520, 703.17	
Hong Kong and Shanghai Banking Corporation	2, 744, 940.48	39, 216, 918.29	344, 980.94	1, 391, 115.46	3, 556, 508.20	1, 000, 000.00
Yokohama Specie Bank, Ltd.	614, 921.81	6, 719, 341.06		2, 915, 746.32	263, 333.42	
Nederlandsch Indische Handelsbank, N. V.	588, 962.29	1, 791, 822.50		1, 780, 348.65	320, 736.91	500, 000.00
The Bank of Taiwan, Ltd.	63, 539.65	577, 763.01		545, 160.41	147, 980.85	500, 000.00
Total	6, 606, 869.92	60, 592, 343.49	344, 980.94	12, 288, 324.77	9, 809, 262.55	2, 000, 000.00
Total, excluding the Philippine Postal Savings Bank	60, 963, 256.59	203, 469, 107.04	41, 516, 754.16	54, 741, 109.15	35, 819, 628.65	27, 263, 300.00
Total, all banks	62, 586, 992.56	203, 469, 107.04	59, 311, 442.31	54, 748, 148.28	35, 917, 577.52	27, 263, 300.00

¹ Includes ₱314,323.72 current account with the Philippine National Bank.² Total of all items under "Investment and securities."³ Due from National Investment Board.

TABLE 15.—*Abridged financial statements of individual banks as of June 30, 1939*—Continued

	Surplus and reserves	Individual deposits subject to check	Savings and time deposits	Deposits of public funds	Other liabilities	Total assets/liabilities
	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos
United States National Bank: National City Bank of New York.....	113,028.71	10,751,774.74	9,645,443.63		11,250,243.70	31,769,490.78
Philippine Government-owned bank: Philippine National Bank.....	16,746,659.02	19,838,589.14	19,224,790.97	79,528,741.82	22,022,922.43	167,358,633.38
Philippine Postal Savings Bank.....	2,528,367.60		15,611,341.80		1,383,702.72	19,523,412.12
Total.....	19,275,026.62	19,838,589.14	34,836,062.77	79,528,741.82	23,406,625.15	186,882,045.50
Domestic banks and trust companies: Bank of the Philippine Islands.....	2,987,426.81	8,301,388.18	16,311,191.22	748,026.78	4,687,547.48	39,785,590.47
Philippine Trust Co.....	423,500.00	3,273,090.98	6,271,896.26		2,470,090.51	13,438,597.78
China Banking Corporation.....	2,153,416.58	4,994,758.59	6,496,691.32		9,609,757.06	28,969,823.55
Peoples Bank & Trust Co.....	229,500.00	6,349,064.14	3,732,743.08		1,077,813.30	12,389,120.52
Philippine Bank of Commerce.....	5,813.17	774,690.73	737,682.29		343,718.28	2,461,904.47
Total.....	5,801,656.56	23,692,942.62	33,550,104.20	748,026.78	18,188,896.63	97,044,976.79
Domestic savings and mortgage banks: Monte de Piedad and Savings Bank.....	1,072,431.82		8,604,705.07		440,147.46	10,117,284.35
Savings Bank of the Commonwealth.....			218,736.19		158,932.43	577,688.62
Total.....	1,072,431.82		8,823,441.26		599,099.89	10,694,972.97
Foreign banks: Chartered Bank of India, Australia, and China.....		9,804,115.22	5,469,581.53		10,783,959.67	26,057,656.42
Hong Kong and Shanghai Banking Corporation.....		10,001,087.02	9,156,329.01		27,097,047.34	47,254,463.37
Yokohama Specie Bank Ltd.....		661,739.57	2,595,781.10		7,255,821.94	10,513,342.61
Nederlandsch Indische Handelsbank, N. V.....		705,731.80	123,378.76		3,152,759.79	4,481,870.35
The Bank of Taiwan, Ltd.....		141,179.09	85,318.23		607,951.60	1,334,448.92
Total.....		21,313,852.70	17,430,388.63		48,897,540.34	89,641,781.67
Total, excluding the Philippine Postal Savings Bank.....	23,733,776.11	75,597,209.20	88,674,098.69	80,273,768.60	100,967,702.99	396,509,855.59
Total, all banks.....	26,262,143.71	75,597,209.20	104,285,440.49	80,273,768.60	102,351,405.71	416,033,267.71

Sources: Postal Savings Bank data from annual report of the Auditor General for fiscal year 1939; for all other banks from the annual report of the Bank Commissioner for fiscal year 1939.

From the data presented in table 15, total resources of all banks subject to inspection of the bank commissioner, that is, excluding the Philippine Postal Savings Bank, were ₱396,509,855.59 as of June 30, 1939. This figure compares with ₱359,272,519.54 as of December 31, 1937, with ₱350,960,453.80 as of December 31, 1936, and with ₱280,433,585.29 as of December 31, 1935. The establishment of the two new banks during the period under review accounted only partially for the increase in resources of ₱37,237,336.05. Marked increases occurred in the cash and the loans, discounts and overdrafts accounts. A marked decrease was noted in the stocks, bonds, and securities account. Moderate increases appear in other asset accounts. The continued expansion of loans, discounts, and overdrafts at the expense of secondary reserves represented by stocks, bonds, and securities indicates a trend toward illiquidity in the banking system. If the resources of the Philippine Postal Savings Bank are taken into consideration the resulting figure for total resources as of June 30, 1939, is ₱416,033,267.71.

The salient characteristics of the banking structure of the Philippines remained as described in my last annual report on page 81.

A segregation of statements related to domestic banks and statements related to branches of foreign banks is significant. Table 16 presents the consolidated balance sheets of domestic banks, their branches and agencies as of the close of the fiscal years 1937, 1938, and 1939. Table 17 presents the consolidated balance sheets of branches of foreign banks as of the close of the fiscal years 1937, 1938, and 1939. Debits to individual accounts and exchange transactions are shown in table 18.

TABLE 16.—*Consolidated balance sheets of domestic banks, inclusive of their branches and agencies for the fiscal years 1937, 1938, and 1939*¹

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Assets:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Loans and discounts.....	93,524,050.08	85,617,993.87	73,948,731.97
Overdrafts.....	33,597,376.45	34,740,250.33	38,105,985.37
Stocks, bonds, and other securities.....	41,171,770.22	49,005,722.86	57,060,838.20
Due from banks.....	29,514,324.59	31,837,273.29	30,756,859.90
Cash.....	52,029,272.82	42,140,305.46	32,345,044.26
Other assets.....	25,261,788.98	25,211,408.72	24,649,762.62
Total assets.....	275,098,583.14	268,552,954.53	256,867,222.32
Liabilities:			
Capital stock.....	25,263,300.00	25,163,300.00	24,663,300.00
Surplus, reserves, and undivided profits.....	25,251,663.45	25,118,100.11	23,888,593.46
Due to banks.....	8,849,357.89	11,194,064.72	8,247,352.13
Individual deposits.....	43,531,581.76	41,213,841.59	55,285,255.74
Savings and time deposits.....	61,598,266.43	59,441,235.33	68,638,141.19
Deposits of public funds.....	80,273,768.60	78,025,405.50	42,809,722.23
Other liabilities.....	30,330,645.01	28,397,007.28	33,334,857.57
Total liabilities.....	275,098,583.14	268,552,954.53	256,867,222.32

¹ Taken from annual reports of the Bank Commissioner.

TABLE 17.—*Consolidated balance sheets of branches of foreign banks, inclusive of their subagencies, for the years 1937, 1938, and 1939*¹

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Assets:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Loans and discounts.....	22,544,841.94	16,560,554.21	16,422,669.18
Overdrafts.....	53,802,838.57	53,507,158.67	43,588,956.34
Stocks, bonds, and other securities.....	344,983.94	375,835.66	3.00
Due from banks.....	25,226,784.56	13,229,334.38	15,158,729.02
Cash.....	8,933,983.77	22,527,569.92	17,467,533.23
Other assets.....	10,557,839.67	12,077,005.09	9,767,406.45
Total assets.....	121,411,272.45	118,277,457.93	102,405,297.22
Liabilities:			
Capital stock.....	2,000,000.00	2,000,000.00	.....
Surplus, reserves, and undivided profits.....	140,636.74	594,319.76	369,256.86
Due to banks.....	48,269,218.69	46,685,378.41	37,349,558.20
Individual deposits.....	32,065,627.44	32,173,275.61	28,968,761.50
Savings and time deposits.....	27,075,832.26	25,380,479.15	26,425,603.06
Deposits of public funds.....	.....	.....	.....
Other liabilities.....	11,859,957.32	11,444,005.00	9,292,117.60
Total liabilities.....	121,411,272.45	118,277,457.93	102,405,297.22

¹ Taken from annual reports of the Bank Commissioner.TABLE 18.—*Statement showing bank debits to individual accounts and exchange transactions for the fiscal years 1937, 1938, and 1939*

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Bank debits to individual accounts ¹	1,139,261,726.00	2,095,465,720.00	2,562,879,343.00
Exchange transactions by banks: ¹			
Bought.....	155,940,869.00	316,291,781.00	382,727,286.00
Sold.....	204,836,874.00	339,537,681.00	360,634,368.00
Net bought or sold.....	48,896,005.00	23,245,900.00	22,092,918.00
Exchange transactions by Bureau of the Treasury: ²			
Bought.....	.....	.....	.....
Sold.....	32,046,377.26	32,948,049.94	9,043,567.60
Net bought or sold.....	32,046,377.26	32,948,049.94	9,043,567.60

¹ Taken from fortnightly and annual reports of the Bank Commissioner.² Taken from annual reports of the Treasurer of the Philippines.

Total resources of domestic banks advanced from ₱256,867,222.32 on December 31, 1937, to ₱268,552,954.53 on December 31, 1938, and to ₱275,098,583.14 on June 30, 1939. Total resources of foreign banks advanced from ₱102,405,297.22 on December 31, 1937, to ₱118,277,457.93 on December 31, 1938, and to ₱121,411,272.45 on June 30, 1939.

The following changes in accounts of domestic banks relate to the calendar year 1938: Loans and discounts increased by ₱11,669,261.90; cash increased by ₱9,795,261.20; overdrafts decreased by ₱3,365,735.04; and stocks, bonds, and other securities decreased by ₱8,055,115.34. As of June 30, 1939, in comparison with December 31, 1938, loans and discounts increased by ₱7,906,056.21; cash increased by ₱9,888,967.36; stocks, bonds, and other securities decreased by ₱7,833,952.64; and due from banks decreased by ₱2,322,948.70.

Resources of foreign banks increase in 1938 as compared with 1937. The most important increases were in the overdrafts and the cash accounts. As of June 30, 1939, loans and discounts accounts exceeded the December 31, 1938, figures by ₱5,984,287.73; due from banks increased ₱11,997,450.18; and cash dropped ₱13,593,586.15.

In domestic banks, the increase in deposits of public funds in 1938 over 1937 amounted to ₱35,215,683.27. Individual deposits declined ₱14,071,414.15 and savings and time deposits decreased ₱9,196,905.86. Capital stock, surplus, reserves, and undivided profits remained practically stationary during the first half of 1939 with the other liabilities accounts showing increases of about ₱2,000,000 each, except due to banks, which decreased ₱2,344,706.83.

Liabilities of foreign banks showed an increase of 2 million in capital stock during 1938; due to banks increased ₱9,335,820.21; individual deposits increased ₱3,204,514.11; savings and time deposits decreased ₱1,045,123.91. The increase in the capital stock account covered the following capitalizations: Branch of the Bank of Taiwan, Ltd., ₱500,000; the Nederlandsch Indische Handelsbank, N. V., ₱500,000; and the Hong Kong and Shanghai Banking Corporation, ₱1,000,000.

The resources of the banking system, excluding the Postal Savings Bank, increased steadily during the period under review as indicated below:

Date:	Total resources (pesos)
Dec. 31, 1937-----	359, 272, 519. 54
Dec. 31, 1938-----	386, 830, 412. 46
June 30, 1939-----	396, 509, 855. 59

Bank operations.—Bank activities during the periods under consideration were characterized by a general rise in loans, discounts, and overdrafts with stocks, bonds, and other securities declining. The following statement shows the trend of these accounts:

TOTAL LOANS, DISCOUNTS, AND OVERDRAFTS

	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Domestic banks-----	127, 121, 426. 53	120, 358, 244. 20	112, 054, 717. 34
Foreign banks-----	76, 347, 680. 51	70, 067, 712. 88	60, 011, 625. 52
Total-----	203, 469, 107. 04	190, 425, 957. 08	172, 066, 342. 86

STOCKS, BONDS, AND OTHER SECURITIES

United States bonds-----	14, 772, 608. 38	18, 866, 288. 08	19, 924, 568. 13
United States, State, and municipal bonds-----	8, 897, 635. 56	12, 251, 442. 43	18, 225, 736. 79
Philippine Islands government bonds-----	14, 797, 326. 60	14, 720, 316. 96	14, 853, 803. 28
Corporation bonds, etc. (domestic)-----	2, 490, 926. 69	3, 145, 012. 66	3, 318, 499. 07
Corporation bonds, etc. (foreign)-----	248, 583. 04	310, 557. 51	361, 292. 02
Others-----	309, 673. 89	87, 940. 88	376, 941. 91
Total-----	41, 516, 754. 16	49, 381, 558. 52	57, 060, 841. 20
Domestic banks-----	41, 171, 770. 22	49, 005, 722. 86	57, 060, 838. 20
Foreign banks-----	344, 983. 94	375, 835. 66	3. 00

Bank debits to individual accounts were: 1937, ₱2,562,879,343; 1938, ₱2,095,465,720; and 1939 to July 1, ₱1,139,261,726. The 1938 figures indicated slower movement of banks funds and smaller business turn-over.

As compared with 1937, gross earnings in 1938 increased by ₱1,090,900, and expenses by ₱503,700. For the 6 months ending June 30, 1939, gross earnings amounted to ₱8,191,000, and expenses ₱5,339,000.

The net operating profit of all banks for 1938 was ₱7,634,000, an increase of ₱379,000 over the net profit of 1937. For the period ended June 30, 1939, the net operating profit was ₱4,195,000.

The cash position of the banking system was strong, showing large excesses over legal reserve requirements.

Exchange markets during the 18-month period were characterized by the continued strength of the dollar. Purchases of exchange by banks for 1938 were ₱316,291,781, a decrease of ₱66,435,505 from 1937; sales were ₱339,537,681, a decrease of ₱21,096,687. For the period January 1-June 30, 1939, purchases were ₱155,940,869, and sales ₱204,836,874. In 1937, purchases were more than sales by ₱22,092,918, but in 1938 and 1939, purchases were less than sales by ₱23,245,900 and ₱48,896,005, respectively.

Exchange sales by the Bureau of the Treasury in 1938 totaled ₱32,948,049.94, and compares with ₱9,043,567.60 in 1937. In 1939, sales amounted to ₱32,046,377.26. All sales in 1937 were made to government bureaus and offices. In 1938 and 1939, approximately ₱9,500,000 and ₱6,000,000, respectively, were to government bureaus and offices, and the balance to banking institutions.

The resort to the Treasury for exchange indicated the need for import cover. It was another evidence of the near boom conditions which were prevailing, due largely to governmental spending. The Treasury's operations in exchange for the past 5½ years are presented below:

Year	Sales	
	To government bureaus	To banking institutes
	<i>Pesos</i>	<i>Pesos</i>
1935.....	8,004,569.76	-----
1936.....	10,041,307.00	-----
1937.....	9,043,567.60	-----
1938.....	9,698,049.94	23,250,000.00
1939 (first 6 months).....	5,996,377.26	26,050,000.00

The approximate ratio of total liquid resources to total deposits increased from 33 percent on December 31, 1937, to 36 percent on December 31, 1938, but returned to its former level on June 30, 1939. The ratio of loans, discounts, and overdrafts to total deposits on the same dates was 77, 81, and 83 percent, respectively. The ratio of investments to deposits on the same dates was 26, 21, and 17 percent, respectively. The trend towards a more nonliquid condition seemed unmistakable.

The Mercantile Bank of China which failed in 1931 and which according to law was placed under the Bank Commissioner for purposes of liquidation, continued under receivership on June 30, 1939. On that date there still were 224 claims pending settlement.

Legislation affecting banks.—Two acts passed by the National Assembly and approved by the President of the Philippines on June 9, 1939, deserve special mention because they would create two new banks with far-reaching powers. Act 458 provided for the establishment of a reserve bank with a capital stock of ₱5,000,000. The act will not become law until approved by the President of the United States.

Act 459 created an Agricultural and Industrial Bank with a capital stock of ₱150,000,000, and provides for the taking over by the bank of the funds, property, and other assets and accounts of the National Investment Board (created by Act 7). This bank was not organized during the period covered by this report.

Both of these banks were to be capitalized from coconut oil excise tax funds. Local discussions indicated that much was expected of the Agricultural and Industrial Bank and the role that it would play in the national economy. The injection into the economic order of long-term credit to the extent indicated by the huge capitalization of the Agricultural and Industrial Bank was viewed with concern in some quarters.

Building and loan associations.—The nine building and loan associations doing business in the Philippines during the periods under review and their assets as of June 30, 1939, are shown below:

	<i>Assets as of June 30, 1939 Pesos</i>
El Hogar Filipino (less "write off" of ₱878,514.15)-----	6,014,280.55
La Urbana-----	2,511,541.47
Cebu Mutual Building and Loan Association-----	1,891,424.16
Manila Building and Loan Association-----	897,446.16
La Previsora Filipina-----	832,054.08
El Ahorro Insular-----	811,218.73
Zamboanga Mutual Building and Loan Association-----	542,893.16
La Salvacion-----	533,354.47
The Helpers, Cebu-----	157,239.48
Total assets-----	14,191,452.26

Total assets of these associations have been steadily declining since 1933. A financial stringency experienced by building and loan associations during 1933 and 1934 started a liquidating movement which apparently has not stopped. The competition of the government and other banking institutions in the field of long-term credit was doubtless another factor in causing building and loan associations to lose ground.

On December 31, 1938, assets totaled ₱15,723,679.12; on December 31, 1937, ₱16,446,762.60; and on June 30, 1939, ₱14,191,452.26. The net profits of these associations aggregated in 1938, ₱1,084,061.58; in 1937, ₱1,006,915.35; and for the 6 months ended June 30, 1939, ₱476,566.90.

Philippine National Bank.—The Philippine National Bank continued its profitable operations during 1938 and the first half of 1939. Total resources on December 31, 1938, were ₱4,042,584.90 greater than on December 31, 1937, and on June 30, 1939, were ₱6,372,779.01 greater than on December 31, 1938. These increases in balance-sheet footings were reflected largely in the cash and the loans, discounts and overdrafts accounts on the assets side, and in the deposits accounts on the liabilities side. Continued decreases were noted in the bond investments and the due from other banks accounts. During 1938 the surplus account reached ₱10,000,000, which is 100 percent of the paid-up capital, and meets the requirements of the bank's charter with respect to the accumulation of the surplus account. Net profit for 1938 amounted to ₱4,038,319. ₱3,895,386.22 of this net profit was credited to the Commonwealth government under the Rehabilitation

Act (3174). The balance of the net profit in the amount of ₱142,-932.78 was credited to the surplus account.

A statement showing the status of the rehabilitation account as of June 30, 1939, is presented on table 21. As of June 30, 1939, the accumulated credits to the Commonwealth government under the terms of the Rehabilitation Act amounted to ₱31,488,066.72. On this date the bank had actually repaid to the government ₱20,202,819.52, leaving a balance of ₱11,285,247.20 due to the government. The last-mentioned figure is carried by the bank in an account captioned "Due to the Treasurer of the Philippines under Act 3174." As of June 30, 1939, the unpaid balance on advances made by the government to the bank under the terms of the act amounted to ₱30,463,865.03.

During 1938 the bank deposited with the Treasurer of the Philippines the necessary amount in treasury certificates to cover the withdrawal from actual circulation of all bank notes outstanding, amounting to more than 8 million pesos.

Commonwealth Act 352, approved August 22, 1938, amended the charter of the Philippine National Bank by authorizing the appointment of one or more vice presidents.

Tables 19 and 20 present condensed balance sheets and profit-and-loss statements of the bank as of December 31, 1937, December 31, 1938, and June 30, 1939.

TABLE 19.—*Condensed balance sheets of the Philippine National Bank for the fiscal years 1937, 1938, and 1939*¹

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Resources:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Cash, including cash items.....	32,533,398.76	23,464,045.85	18,235,821.47
Circulation reserve with United States banks.....	2,500,000.00	2,500,000.00	2,500,000.00
Due from other banks.....	12,229,390.77	15,901,347.03	17,567,282.62
Total cash and due from banks.....	47,262,789.53	41,865,392.88	38,303,104.09
Bond investments:			
Philippine Island Government bonds.....	11,866,150.00	11,892,423.75	12,285,783.75
United States Government bonds.....	14,551,006.40	14,551,006.40	14,551,000.00
State, municipal, and other bonds.....	8,732,000.00	12,048,000.00	17,878,000.00
Bond premiums.....	174,636.59	231,448.83	456,837.48
Total bond investments.....	35,343,792.99	38,722,878.98	45,171,621.23
Other investments.....	165,569.00	165,569.00	103,107.00
Loans and discounts:			
Bankers' acceptances, import, etc.....	12,984,120.97	9,616,373.10	11,486,550.91
Real estate mortgage loans.....	11,496,890.51	13,688,686.49	12,285,499.60
Other loans.....	56,524,707.77	52,978,702.16	44,782,557.66
Total loans and discounts.....	81,005,719.25	75,683,761.75	68,554,608.17
Other assets.....	3,133,822.04	4,101,311.19	4,363,888.41
Total resources.....	166,911,692.81	160,538,913.80	156,496,328.90
Liabilities:			
Capital, paid-up.....	10,000,000.00	10,000,000.00	10,000,000.00
Surplus, reserve and undivided profits.....	16,771,282.26	16,736,126.89	16,561,556.54
Net worth.....	26,771,282.26	26,736,126.89	26,561,556.54
Deferred profits.....	3,900,753.07	4,021,294.95	3,868,706.63

See footnote at end of table.

TABLE 19.—*Condensed balance sheets of the Philippine National Bank for the fiscal years 1937, 1938, and 1939*¹—Continued

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Liabilities—Continued.			
Deposits:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Government.....	54,090,929.60	43,711,498.25	42,327,835.54
Semigovernment.....	25,434,812.22	28,525,803.51	23,935,796.94
Individual.....	39,063,310.11	36,875,992.70	38,341,138.77
Due to banks.....	2,642,345.49	3,162,836.37	3,361,006.25
Due to Treasurer of the Philippines under Act 3174.....	11,285,247.20	9,401,178.31	6,975,241.59
Other deposits.....	1,368,830.88	1,219,664.58	947,734.16
Total deposits.....	133,885,475.50	127,896,973.72	115,888,753.25
Bank notes in circulation.....			8,296,558.00
Other liabilities.....	2,354,181.98	1,884,518.24	1,880,754.48
Total liabilities.....	166,911,692.81	160,538,913.80	156,496,328.90

¹ Taken from reports of the auditor for the Philippine National Bank.TABLE 20.—*Condensed statement of profit and loss of the Philippine National Bank for the fiscal years 1937, 1938, and 1939*¹

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Earnings:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Interest on loans and discounts.....	2,225,640.27	3,747,037.99	3,814,206.76
Interest on bonds.....	512,877.39	1,156,579.55	1,230,584.70
Other operating income.....	1,066,594.62	2,077,786.61	1,228,264.87
Total earnings.....	3,805,112.28	6,981,404.15	6,273,056.33
Expenses:			
Interest on deposits.....	678,746.82	1,261,182.67	1,084,874.13
Taxes.....	540,000.00	1,080,000.00	1,139,608.00
Salaries, directors' fees, etc.....	517,721.58	971,767.82	908,701.08
Other operating expenses.....	415,023.04	877,989.96	820,143.84
Total expenses.....	2,151,491.44	4,190,940.45	3,953,327.05
Net operating profit.....	1,653,620.84	2,790,463.70	2,319,729.28
Add—Net recoveries on charged-off assets, etc.....	230,448.05	1,247,855.30	878,123.49
Net profit.....	1,884,068.89	4,038,319.00	3,197,852.77

¹ Taken from reports of the auditor for the Philippine National Bank.TABLE 21.—*Statement of rehabilitation payments to the government by the Philippine National Bank to end of June 30, 1939*¹

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Total repayment during the year.....	<i>Pesos</i> 1,884,068.89	<i>Pesos</i> 3,895,386.22	<i>Pesos</i> 2,398,389.57
Plus—Repayments of former years.....	29,603,997.83	25,708,611.61	23,310,222.04
Repayments to date.....	31,488,066.72	29,603,997.83	25,708,611.61
Balance due.....	30,463,865.03	32,347,933.92	36,243,320.14
Total repayments to be made.....	61,951,931.75	61,951,931.75	61,951,931.75

¹ Taken from reports of the auditor for the Philippine National Bank.

Postal Savings Bank of the Philippines.—This bank is operated by the Bureau of Posts but its investments are operated by the National Investment Board. This administration will be transferred from the investment board to the newly created Agricultural and Industrial Bank.

Total assets of the Postal Savings Bank increased from ₱18,155,459.03 on December 31, 1937, to ₱19,164,371.41 on December 31, 1938. Total current assets declined during 1938 in the amount of ₱2,335,016.94. Savings deposits increased to ₱16,568,817.80 on December 31, 1938, from ₱15,185,221.44 on December 31, 1937. The net operating profit for 1938 was ₱2,116.93, and compares with a profit of ₱148,155.89 realized in 1937.

The steady growth of this institution reflects the confidence in which it is held by the public at large.

National Investment Board.—During the periods under review, the government service insurance fund (Act 186) and the revolving fund (Act 403) were placed under the management and control of the board. The financial condition of the funds under the National Investment Board is summarized in the following paragraphs.

Total receipts realized by the board in 1938 were ₱2,033,270.61 as compared with ₱2,424,315.18 (revised) in 1937; expenditures amounted to ₱935,116.80 in 1938, and ₱995,144.16 (revised) in 1937. Net profits totaled ₱1,098,153.81 in 1938 and ₱1,429,171.02 in 1937.

Total assets amounted to ₱46,937,979.09 as of December 31, 1938, and ₱45,210,669.64 as of December 31, 1937. The increase was ₱1,727,309.45. Total assets as of June 30, 1939, were ₱50,526,807.51, an increase of ₱3,588,828.42 over the figure on December 31, 1938. Increases of ₱2,343,285.67 in cash and due from banks, and ₱1,394,390.37 in bonds and loans were noted. Reserves accounts amounting to ₱5,813,704.66 as of June 30, 1939, reflected an increase of ₱4,383,271.76 over figures on December 31, 1938. The surplus account decreased ₱3,779,198.49 between December 31, 1938, and June 30, 1939. Surplus and reserves stood as follows on the dates indicated: December 31, 1937, surplus ₱5,566,635.20, reserves ₱1,324,955.81; December 31, 1938, surplus ₱6,059,094.19, reserves ₱1,430,432.90; June 30, 1939, surplus ₱2,279,895.70, reserves ₱5,815,704.66.

Government Service Insurance System.—The Government Service Insurance System is administered by the Government Service Insurance Board. Funds of the system are invested by the National Investment Board. When organized, the Agricultural and Industrial Bank will control the investments of the system.

Receipts accruing to the system in 1938 were ₱3,184,328.97; in 1937, ₱996,002.37. For the period ended June 30, 1939, receipts amounted to ₱1,757,811.37. Expenditures totaled ₱109,114.97 in 1937; ₱375,250.04 in 1938; and ₱239,204.56 in the 1939 period. Most of the income was derived from premiums earned, while the bulk of expenditures were for death claims and salaries. As of December 31, 1938, the surplus amounted to ₱5,063,512.39 (revised), and contrasts with a surplus of ₱876,753.19 on December 31, 1937. The surplus on June 30, 1939, was ₱2,057,425.90. The decrease from December 31, 1938, was largely due to provisions for reserves.

Government-Owned Companies and Governmental Entities

During the period under review the government-owned companies continued the expansion of their activities described on pages 92 and 93 of my previous report. They became the chief agency of the government in its efforts to effect a readjustment of the national economy. The activities of the National Development Co. were outstanding. As of December 31, 1935, the National Development Co. investments, loans, and advances to its subsidiaries and other governmental entities approximated ₱3,000,000. On June 30, 1939, the comparable figure was ₱24,000,000.

The financial institutions owned and controlled by the government are included in the section on banking in this report. These institutions are the Philippine National Bank, Postal Savings Bank, National Investment Board, and Government Service Insurance Board.

Manila Railroad Co.—The Aloneros-Pamplona extension was completed during 1938. This construction made possible the inauguration of continuous train service between Manila and the Bicol Provinces. During 1939 further extension of lines was undertaken. Regular train service between Manila and San Jose, Nueva Ecija, and highway transportation service in Mindanao were inaugurated.

TABLE 22.—Condensed balance sheets of the Manila Railroad Co. for the fiscal years 1937, 1938, and 1939¹

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Assets:			
Investments:			
Investments in roads and equipment and miscellaneous physical property	Pesos 110,625,974.02	Pesos 109,251,275.17	Pesos 106,115,761.00
Sinking funds	16,837.36	12,658.36	53,514.36
Manila Hotel stock	558,512.62	558,512.62	555,887.62
Other investments	65,602.98	65,602.98	87,223.14
Total investments	111,266,926.98	109,888,049.13	106,812,386.12
Current assets:			
Cash, including cash on deposits, etc.	6,073,703.81	1,738,076.30	2,827,848.86
Accounts receivable	962,490.52	991,307.93	873,133.92
Materials and supplies	2,421,512.64	2,152,716.25	2,083,059.10
Other current assets	60,943.03	2,816.32	1,236.99
Total current assets	9,518,650.00	4,884,916.80	5,785,278.87
Deferred assets	17,786.21	12,298.48	8,291.11
Unadjusted debits	295,432.53	218,788.15	194,732.31
Total assets	121,098,795.72	115,004,052.56	112,800,688.41
Liabilities:			
Capital stock	31,427,000.00	29,427,000.00	27,427,000.00
Long term debt:			
Bonds issued	35,142,000.00	35,834,000.00	37,354,000.00
Philippine Government advances	5,741,883.49	5,741,883.49	5,741,883.49
Philippine Government loan	9,390,600.00	9,590,400.00	9,790,200.00
National Development Co. loan	1,200,000.00	1,200,000.00	
Total long-term debt	51,474,483.49	52,366,283.49	52,886,083.49
Current liabilities	5,105,277.87	1,519,572.55	1,759,072.12
Deferred liabilities	238,893.22	107,770.75	71,798.54

¹ Taken from the annual report of the comptroller of the Manila Railroad Co.

TABLE 22.—*Condensed balance sheets of the Manila Railroad Co. for the fiscal years 1937, 1938, and 1939—Continued*

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Liabilities—Continued.			
Unadjusted credits:			
Accrued depreciation—equipment and miscellaneous physical property.....	<i>Pesos</i> 11,669,977.31	<i>Pesos</i> 11,366,426.53	<i>Pesos</i> 10,641,606.46
Other unadjusted credits.....	503,806.12	385,842.43	266,301.18
Total unadjusted credits.....	12,173,783.43	11,752,268.96	10,907,907.64
Corporate surplus.....	32,912,539.19	30,979,829.78	27,872,263.83
Less: Profit and loss balance (unappropriated).....	12,233,181.48	11,148,672.97	8,123,437.21
Net corporate surplus.....	20,679,357.71	19,831,156.81	19,748,826.62
Total liabilities.....	121,098,795.72	115,004,052.56	112,800,688.41

TABLE 23.—*Statement of profit and loss of the Manila Railroad Co. for the fiscal years 1937, 1938, and 1939*¹

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Railway operating revenues.....	<i>Pesos</i> 5,144,141.71	<i>Pesos</i> 8,668,336.39	<i>Pesos</i> 8,476,800.27
Railway operating expenses.....	3,669,677.67	6,931,260.64	6,171,562.71
Net revenues from railway operations.....	1,474,464.04	1,737,075.75	2,305,237.56
Revenues from miscellaneous operations.....	1,768,428.98	2,847,452.58	2,281,093.24
Expenses of miscellaneous operations.....	1,460,042.37	2,387,699.76	1,772,414.59
Net revenues from miscellaneous operations.....	308,386.61	459,752.82	508,678.65
Net operating income.....	1,782,850.65	2,196,828.57	2,813,916.21
Nonoperating income.....	66,834.87	124,236.87	148,268.31
Gross income.....	1,849,685.52	2,321,065.44	2,962,184.52
Deductions:			
Interest on funded debt.....	891,329.31	1,842,122.40	1,931,085.07
Extraordinary exchange expenses, etc.....	27,706.11	85,172.23	86,680.48
	919,035.42	1,927,294.63	2,017,765.55
Net income.....	930,650.10	393,770.81	944,418.97

¹ Taken from the annual reports of the comptroller of the Manila Railroad Co.

The railroad company realized during 1938 a total income of ₱11,640,025.84, which compares with ₱10,906,161.82 during 1937, an increase of ₱733,864.02. Passenger revenues in 1938 were the highest recorded since 1930 and were 10.77 percent greater than passenger revenues in 1937. In spite of favorable increases in passenger and freight revenues, the net profit for 1938 was only ₱393,770.81. The net profit in 1937 was ₱944,418.97. The increase in operating expenses in 1938 more than offset increases in revenue. Among the factors reported to be responsible for the increase in operating expenses were: higher cost of fuel, large amount of maintenance work, increase in personnel, and increase in salaries and wages partly due to the application of the Eight-hour Law.

The net profit of the company reflects its operation of the Manila Port Terminal and certain steamship lines. During 1938 the railroad's share of the profits of the terminal amounted to ₱197,696.63. During the same year operation of the steamship lines resulted in a net loss of ₱25,311.34. One-half of the profits of the port terminal operations is credited to the Bureau of Customs.

During 1938 the Commonwealth government subscribed to an additional 2 million pesos of the capital stock of the railroad, and during the first 6 months of 1939 another 2 million was subscribed. During 1938 and the first 6 months of 1939 the net reduction in the funded debt amounted to ₱1,411,600. The gross reduction of ₱2,611,600 was offset by a loan from the National Development Co. of ₱1,200,000 for the purchase of the S. S. *Mayon*. This transaction was accomplished in 1938. During the period under review the corporate surplus account increased ₱930,531.09. During 1938 the railroad purchased 21 additional shares of the Manila Hotel Co., thus increasing its investment in the hotel company by ₱2,625.

The railroad company's long-term debt amounted to ₱51,474,483.49 on June 30, 1939. On the same date the capital stock account stood at ₱31,427,000. In addition to the capital stock the government and its agencies held ₱20,486,005.99 of the long-term debt. This figure was composed of the following items: Commonwealth government advances, ₱5,741,883.49; government loan ₱9,390,600; National Development Co. loan, ₱1,200,000; and outstanding bonds held by the government or governmental agencies, ₱4,153,522.50. Provisions for paying the funded debt are negligible: the railroad's low earning capacity prevents it from making adequate provision for repayment at maturity of its long-term debt. It would seem wise for the government to begin now to make provision for greatly increasing its investment in the Manila Railroad and for the repayment of its outstanding bonds held by outsiders. The government would have to increase its stock subscription by more than ₱20,000,000 in order to enable the railroad to liquidate its indebtedness to the government and governmental agencies.

Manila Hotel Co.—During the period under review the Manila Hotel Co. started the construction of the Taal Vista Lodge at Tagaytay, Cavite, and took over from the Manila Railroad Co. the operation of the Mayon Hotel at Legaspi, Albay. The stock of the hotel company is owned by the Manila Railroad Co.

The total income of the company decreased in 1938 by ₱64,513.04 and expenditures increased by ₱77,618.52 as compared with 1937. Net profit was ₱134,785.40 in 1938 and ₱276,916.96 in 1937.

Tables 24 and 25 reflect the financial status of the company during 1937, 1938, and up to June 30, 1939.

TABLE 24.—*Condensed balance sheets of the Manila Hotel Co. for the fiscal years 1937, 1938, and 1939*¹

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Assets:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Cash.....	26,773.30	2,098.79	87,717.54
Accounts receivable.....	76,225.62	113,216.60	131,075.00
Stores.....	69,532.35	43,696.76	67,853.96
Deferred charges, etc.....	7,272.29	600.00	782.02
Fixed assets (less accrued depreciation).....	2,341,058.84	2,355,594.40	2,112,536.90
Total assets.....	2,520,862.40	2,515,206.55	2,399,965.42
Liabilities:			
Accounts and accrued leave payable.....	47,116.19	83,974.25	103,015.97
Capital stock.....	900,000.00	900,000.00	900,000.00
Surplus.....	1,573,746.21	1,531,232.30	1,396,949.45
Total liabilities.....	2,520,862.40	2,515,206.55	2,399,965.42

¹ Taken from reports of the auditor for the Manila Hotel Co.

TABLE 25.—*Statement of profit and loss of the Manila Hotel Co. for the fiscal years 1937, 1938, and 1939*¹

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Income:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Rooms department.....	189,472.39	396,829.64	440,486.92
Restaurant department.....	258,574.17	497,023.48	496,666.13
Main bar department.....	43,126.21	97,595.64	118,691.38
Service bar department.....	90,860.99	176,494.98	179,479.72
Other income.....	34,875.09	39,726.04	36,858.67
Total income.....	616,908.85	1,207,669.78	1,272,182.82
Expenses:			
Salaries and wages (including extra help and sub- sistence of employees).....	76,814.99	154,155.61	123,025.05
Supplies consumed.....	159,330.09	332,871.87	344,460.41
Music and entertainment.....	34,565.99	51,475.06	63,298.63
Other expenses.....	289,740.44	534,381.84	464,481.77
Total expenses.....	560,451.51	1,072,884.38	995,265.86
Net profit.....	56,457.34	134,785.40	276,916.96

¹ Taken from reports of the auditor for the Manila Hotel Co.

National Development Co.—During 1938 the National Development Co. established additional subsidiaries by organizing the National Warehousing Corporation and the People's Homesite Corporation, and acquired through purchase the Insular Sugar Refining Corporation and the machineries and sugar quota rights of the Malabon Sugar Co. The company paid ₱3,600,000 for the Insular Sugar Refining Corporation, carried as an investment, and ₱600,000 for the machineries and sugar quota rights, carried as a loan on its books. The Insular Sugar Refining Corporation was extended a credit line of ₱2,000,000 under which ₱880,418.46 was advanced in 1938 and ₱119,581.54 during the first 6 months of 1939. During 1938, ₱2,000,000 was paid to the People's Homesite Corporation and ₱255,500 to the National Warehousing Corporation as subscriptions to capital stock.

Additional subscriptions to the capital stock of the National Food Products Corporation amounted to ₱362,000 during 1938 and ₱500,000 during the first 6 months of 1939. The company's investment in the food products company was ₱1,500,000 as of June 30, 1939. An additional payment of ₱2,750,600 for capital stock of the Cebu Portland Cement Co. was made in 1939 thus increasing the company's investment to ₱5,500,600. A loan of ₱1,200,000 for the purchase of the *S. S. Mayon* was granted to the Manila Railroad Co. in 1938. During the first half of 1939 the company invested in textile mills the sum of ₱2,004,213.03; advanced ₱1,757,230.80 for the acquisition of rights and interests on coastwise and ocean-going vessels of De la Rama Steamship Co.; and advanced ₱200,000, subject to reimbursement, for the organization of the National Land Settlement Administration created under Act 441.

During 1938 the National Development Co. spent ₱186,295.09 on its studies of economic projects. During the first half of 1939 similar expenditures amounted to ₱140,646.42. The following are among the more important projects which are under study: Surigao iron ore reservation, exploration for coal and petroleum, Mindanao railway and power project, ceramic roofing, hemp central, home weaving, rayon spinning, fiber investigation, chemical factories, rice oil extraction, and copra central. As of June 30, 1939, work on the Mindanao

railway project, paper pulp factories, and copra centrals was either dropped or postponed indefinitely. It is possible that the last two mentioned projects will be carried on by other agencies. During 1938 the government paid to the National Development Co. ₱10,475,300 on account of its capital stock subscription.

TABLE 26.—Condensed balance sheets of the National Development Co. for the fiscal years 1937, 1938, and 1939 ¹

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Assets:			
Current assets:			
Cash (including cash in hands of accountable officers).....	<i>Pesos</i> 3,552,107.22	<i>Pesos</i> 7,341,191.66	<i>Pesos</i> 7,163,526.75
Other current assets.....	150,229.48	100,563.20	42,839.02
Total current assets.....	3,702,336.70	7,441,754.86	7,206,365.77
Advances to subsidiary and other companies:			
Insular Sugar Refining Corporation.....	1,000,000.00	880,418.46	-----
Manila Railroad Co.....	-----	33,241.20	-----
National Land Settlement Administration.....	200,000.00	-----	-----
National Power Corporation.....	-----	-----	42,818.05
National Food Products Corporation.....	-----	-----	26,366.05
Total advances to subsidiary and other companies.....	1,200,000.00	913,659.66	69,184.10
Investments:			
Cebu Portland Cement Co.....	5,500,000.00	2,750,000.00	2,750,000.00
National Rice and Corn Corporation.....	4,000,000.00	4,000,000.00	4,000,000.00
National Food Products Corporation.....	1,500,000.00	1,000,000.00	638,000.00
National Warehousing Corporation.....	255,500.00	255,500.00	-----
Insular Sugar Refining Corporation (par value of stock ₱1,903.864).....	3,600,000.00	3,600,000.00	-----
People's Homesite Corporation.....	2,000,000.00	2,000,000.00	-----
Advances for rights and interests on coast-wise and ocean-going vessels.....	1,757,230.80	-----	-----
Sabani estate.....	304,202.42	304,202.42	299,614.90
Textile mills.....	2,004,213.03	-----	-----
Total investments.....	20,921,746.25	13,909,702.42	7,687,614.90
Long-term loans:			
Manila Railroad Co.....	1,200,000.00	1,200,000.00	-----
Insular Sugar Refining Corporation.....	640,000.00	640,000.00	-----
Total long-term loans.....	1,840,000.00	1,840,000.00	-----
Subscription receivable—Commonwealth government.....	-----	-----	11,565,000.00
Fixed assets (less depreciation).....	1,543,481.98	3,553,364.78	31,667.86
Other assets.....	333,487.83	356,473.40	100,207.25
Total assets.....	29,541,052.76	28,014,955.12	26,660,039.88
Liabilities:			
Current liabilities.....	16,234.35	1,266,319.03	12,596.55
Deferred credits.....	62,915.45	95,846.51	1,473.52
Capital stock:			
Authorized.....	₱50,000,000	-----	-----
Unissued.....	23,589,400	-----	-----
Total subscribed and fully paid.....	26,410,600	-----	-----
Less treasury stock.....	300	-----	-----
Net subscribed and fully paid.....	26,410,300.00	26,410,300.00	26,410,300.00
Surplus:			
Profit Jan. 1.....	242,489.58	235,654.95	-----
Profit during year.....	2,809,089.88	5,321.52	235,654.95
Capital surplus.....	-----	-----	14.86
Surplus adjustments.....	23.50	1,513.11	-----
Total surplus.....	3,051,602.96	242,489.58	235,669.81
Total liabilities.....	29,541,052.76	28,014,955.12	26,660,039.88

¹ Taken from annual reports of the comptroller for the National Development Co.

TABLE 27.—*Statement of profit and loss of the National Development Co. for the fiscal years 1937, 1938, and 1939*¹

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Income:			
Stock dividends on stock investment:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Cebu Portland Cement Co.-----	2,750,000.00		
Dividends on stock investments:			
Cebu Portland Cement Co.-----			275,000.00
Insular Sugar Refining Corporation-----	39,326.56		
Interest on advances to subsidiaries and other companies-----	61,557.42		
Other income-----	23,560.82	79,896.95	28,421.75
Total income-----	2,874,444.80	79,896.95	303,421.75
Expenses:			
Directors' per diems-----	1,000.00	2,070.00	220.00
Executive salaries-----	13,649.98	22,055.17	9,926.23
Office salaries and wages-----	29,945.19	24,324.30	33,176.81
Other expenses-----	20,538.98	32,137.32	22,314.04
Total expenses-----	65,134.15	80,586.79	65,637.08
Gross profit (or loss)-----	2,809,310.65	(689.84)	237,784.67
Profit (or loss) derived from the operation of the Sabani estate-----	(220.77)	6,011.36	(2,129.72)
Net profit-----	2,809,089.88	5,321.52	235,654.95

¹ Taken from annual reports of the comptroller for the National Development Co.

The total income of the corporation during 1938 amounted to ₱79,896.95 and compares with ₱303,421.75 during 1937. The decrease was due principally to the fact that no dividend was received from the Cebu Portland Cement Co. in 1938. During the first 6 months of 1939 the total income was ₱2,874,444.80 which was abnormal compared with previous years. As shown on table 27, a stock dividend of ₱2,750,000 received from the Cebu Portland Cement Co., which was declared from accumulated surplus of previous years, accounted for the large increase. This stock dividend was treated as income on the books of the development company.

Total expenses during 1938 aggregated ₱80,586.79 and compares with ₱65,637.08 during 1937. In the 1939 period, total expenses reached ₱65,134.15. Net profit in 1938 was ₱5,321.52 and compares with a net profit of ₱235,654.95 in 1937.

The extraordinary activity of the National Development Co. during the period under review was reflected in sharp increases in amounts paid as directors' per diems; executive salaries; and officers' salaries and wages. As of June 30, 1939, approximately ₱24,000,000 of the company's capital was represented by advances to subsidiaries and other companies, investments in the stocks of subsidiaries, and long-term loans to subsidiaries. The comparable figure on December 31, 1935, was ₱3,000,000. The National Development Co. has become the outstanding effort of the Commonwealth government to effect a readjustment of its economy.

Cebu Portland Cement Co.—The prosperity of the Cebu Portland Cement Co. during the period under review was largely due to the extensive public works program of the national government. To meet the increasing demand for cement, some cement was imported by the company in 1938. A portion of the current and accumulated earnings was ploughed back into the fixed and working assets accounts. During 1938 the company purchased for ₱400,000 the Uling coal fields located near Naga, Cebu. It was anticipated that the purchase would reduce the cost of coal used by the plant.

On March 14, 1939, the company increased its authorized capital stock from ₱5,000,000 to ₱6,000,000. On June 30, 1939, the National Development Co. held ₱5,500,600 and private parties held ₱1,000 of the outstanding capital stock. During the 1939 period the development company paid ₱2,750,600 on its stock subscription. This financing was related to a stock dividend in the amount of ₱2,750,800 declared by the cement company in 1939. The net profit of the company in 1938 was ₱504,342.73 and compares with ₱577,029.88 in 1937.

Additional financial information concerning the Cebu Portland Cement Co. is presented on tables 28 and 29.

TABLE 28.—*Condensed balance sheets of the Cebu Portland Cement Co. for the fiscal years 1937, 1938, and 1939*¹

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Assets:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Cash.....	940,351.14	1,081,026.29	2,040,194.14
Accounts receivable.....	1,069,900.06	1,066,102.56	460,418.79
Working assets.....	1,016,206.98	989,433.35	722,132.08
Deferred charges.....	168,577.35	142,863.62	89,105.96
Investments.....	475,575.36	475,575.36	397,617.74
Fixed assets (less depreciation).....	2,947,002.29	2,701,248.86	1,757,020.02
Total assets.....	6,617,613.18	6,456,250.04	5,466,488.73
Liabilities:			
Current liabilities.....	253,181.35	584,911.08	102,766.07
Deferred credits.....	10,192.88	7,664.36	4,390.79
Capital stock:			
Authorized.....	6,000,000.00	5,000,000.00	5,000,000.00
Unissued.....	498,400.00	2,249,200.00	2,249,200.00
Outstanding.....	5,501,600.00	2,750,800.00	2,750,800.00
Surplus and reserves.....	2 3,110,119.60	2,608,531.87	2,306,581.99
Less: Dividends paid.....	2,750,800.00		275,080.00
	359,319.60	2,608,531.87	2,031,501.99
Add: Net profit for the year from manufactured cement.....	493,319.35	484,402.46	577,029.88
Add: Net profit for the year from imported cement.....		19,940.27	
Net surplus and reserves.....	852,638.95	2 3,112,874.60	2,608,531.87
Net worth.....	6,354,238.95	5,863,674.60	5,359,331.87
Total liabilities.....	6,617,613.18	6,456,250.04	5,446,488.7

¹ From annual reports of the comptroller for the Cebu Portland Cement Co.

² Difference of ₱2,755 between balance at end and beginning of period represents cost of documentary stamps affixed to certificates of stock charged direct to surplus and reserves.

TABLE 29.—*Statement of profit and loss of the Cebu Portland Cement Co. for the fiscal years 1937, 1938, and 1939*¹

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Manufactured:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Cement sales.....	1,993,370.59	2,560,128.34	2,314,923.79
Less cost of sales.....	1,110,282.63	1,509,107.25	1,255,080.16
Gross profit.....	883,087.96	1,051,021.09	1,059,843.63
Expenses:			
Selling.....	353,661.08	473,321.19	412,918.89
Administrative.....	36,454.73	55,563.42	46,217.71
Financial and other.....	14,914.64	66,821.92	69,329.73
Total operating expenses.....	405,030.45	595,706.53	528,466.33
Net operating profit.....	478,057.51	455,314.56	531,377.30
Add extraneous income.....	24,435.20	38,148.12	54,594.14
	502,492.71	493,462.68	585,971.44
Deduct miscellaneous expenses.....	9,173.36	9,060.22	8,941.56
Net profit from manufactured cement.....	493,319.35	484,402.46	577,029.88
Imported:			
Cement sales.....		342,442.71	-----
Less cost of sales.....		301,378.60	-----
Gross profit.....		41,064.11	-----
Expenses.....		21,123.84	-----
Net profit from imported cement.....		19,940.27	-----

¹ From annual reports of the comptroller for the Cebu Portland Cement Co.

National Rice and Corn Corporation.—As a complement to its activities the National Rice and Corn Corporation has undertaken to construct and operate warehouses and to open agencies in several provinces.

The company's activities continued to be largely connected with the purchase and sale of rice. Other purchases and sales include palay, corn, etc. Milling and warehousing activities in 1938 were notable. These activities accounted largely for an increase of more than 100 percent in operating expenses in 1938. As will be seen from table 31, the net profit for the year 1938 was ₱29,295.29 and contrasts with a net loss of ₱19,080.90 in 1937. Net profit for the first 6 months of 1939 was ₱221,400.76.

TABLE 30.—*Condensed balance sheets of the National Rice and Corn Corporation for the fiscal years 1937, 1938, and 1939*¹

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Assets:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Cash.....	3,902,285.81	5,054,844.14	2,190,389.91
Other current assets.....	180,316.53	230,995.22	273,801.85
Inventories.....	1,834,555.74	659,325.29	3,807,089.99
Investments.....	27,000.00	9,000.00	10,000.00
Deferred charges.....	42,336.32	61,793.97	26,321.51
Fixed assets (less depreciation).....	881,661.58	607,759.75	127,804.57
Total assets.....	6,868,155.98	6,623,718.37	6,495,407.83
Liabilities:			
Current liabilities.....	126,137.86	165,794.75	92,441.33
Deferred credits.....	88,851.66	26,157.92	496.09
Capital stock.....	4,000,000.00	4,060,000.00	4,000,000.00
Surplus.....	2,653,166.46	2,431,765.70	2,402,470.41
Total liabilities.....	6,868,155.98	6,623,718.37	6,495,407.83

¹ Taken from the annual reports of the comptroller of the National Rice and Corn Corporation.

TABLE 31.—*Statement of profit and loss of the National Rice and Corn Corporation for the fiscal years 1937, 1938, and 1939*¹

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Income:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Sales of rice.....	3,550,800.45	6,342,466.32	2,237,687.46
Cost of rice sold.....	3,262,032.86	5,516,278.04	1,878,575.13
Gross profit on rice sold.....	288,767.59	826,188.28	359,112.33
Sales of palay, corn, etc.....	141,459.84	302,817.49	832,713.15
Cost of palay, corn, etc., sold.....	102,630.16	216,165.91	811,741.80
Gross profit on palay, corn, etc., sold.....	38,829.68	86,651.58	20,971.35
Total gross income from operation.....	327,597.27	912,839.86	380,083.68
Expenses:			
Selling.....	52,733.93	165,653.20	200,455.53
Administrative.....	57,077.05	112,332.35	98,874.50
Milling.....	6,893.32	197,497.75	34,622.56
Bonded warehouses.....	29,315.23	339,908.01	62,027.51
Other expenses.....	10,465.06	16,208.51	11,927.06
Total expenses.....	156,484.59	831,599.82	407,907.16
Operating profit (or loss).....	171,112.68	81,240.04	(27,823.48)
Add other income.....	50,288.08	5,413.04	10,912.54
	221,400.76	86,653.08	(16,910.94)
Less other charges.....		57,357.79	2,169.96
Net profit (or loss).....	221,400.76	29,295.29	(19,080.90)
Surplus Jan. 1.....	2,431,765.70	2,402,470.41	2,421,551.31
Surplus at end of period.....	2,653,166.46	2,431,765.70	2,402,470.41

¹ Taken from Annual Reports of the Comptroller of the National Rice and Corn Corporation.

National Food Products Corporation.—During 1938 the National Food Products Corporation continued its organization and construction program. Two projects of the corporation, namely, the Guagua cannery in Pampanga and the can-making plant at the Pureza compound in Manila, commenced operations in the early part of 1939. In 1938 the corporation began making loans to fishpond owners. These advances amounted to ₱34,900 on December 31, 1938, and ₱141,700 on June 30, 1939. It was reported that the corporation's relations with private fishpond owners did not augur well for the success of its ventures. In addition to the manufacturing of cans and the canning of fish, vegetables, and meats, the corporation has initiated the manufacture of clay products.

The National Food Products Corporation received ₱362,000 in 1938 and ₱500,000 in 1939 as additional payments by its parent company, the National Development Co., on its stock subscription account.

Balance sheets and statements of profit and loss are presented on tables 32 and 33.

TABLE 32.—*Condensed balance sheets of the National Food Products Corporation for the fiscal years 1937, 1938, and 1939*¹

Details	June 30, 1939	Dec. 31, 1938	Dec. 31, 1937
Assets:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Cash.....	141,865.16	237,078.59	638,000.00
Advances to officer.....	7,271.79	1,110.21	-----
Accounts receivable.....	15,403.74	3,107.32	-----
Inventories.....	234,853.94	52,022.52	533.01
Materials.....	81,409.80	-----	-----
Subscription receivable from the National Development Co.....	-----	275,500.00	637,500.00
Loans to fishpond owners.....	141,700.00	34,900.00	-----
Fixed assets (less reserve for depreciation).....	760,698.60	644,615.43	440.54
Organization expenses.....	93,030.83	95,553.95	25,552.50
Deferred charges.....	17,978.06	31,453.63	-----
Other assets.....	32,198.77	386.95	-----
Total assets.....	1,526,410.69	1,375,728.60	1,302,026.05
Liabilities:			
Accounts payable.....	86,222.08	100,228.60	26,526.05
Deferred credits.....	20.84	-----	-----
Capital stock:			
Authorized.....	2,500,000.00	2,500,000.00	2,500,000.00
Unissued.....	1,000,000.00	1,224,500.00	1,224,500.00
Subscribed and fully paid up.....	1,500,000.00	1,275,500.00	1,275,500.00
Less: Loss from Jan. 1 to June 30, 1939.....	59,832.23	-----	-----
Total liabilities.....	1,526,410.69	1,375,728.60	1,302,026.05

¹ From annual reports of the auditor for the National Food Products Corporation.TABLE 33.—*Statement of profit and loss of the National Food Products Corporation for the fiscal year 1939*¹

Details	June 30, 1939	Details	June 30, 1939
Income:	<i>Pesos</i>	Income—Continued.	<i>Pesos</i>
Sales of canned goods.....	16,771.41	Loss from sales and operation.....	14,090.31
Sales of cans.....	23,503.14		
Sales of clay products.....	1,318.98	Expenses:	
Receipts from operation of pilot plant, etc.....	8,684.24	Sales and distribution.....	5,678.42
Total sales.....	50,277.77	Administration.....	22,486.87
		Other charges.....	22,625.22
Cost of sales:		Total expenses.....	50,790.51
Canned goods.....	23,126.35	Loss on sales.....	64,880.82
Cans.....	23,397.44	Less other income.....	5,048.59
Clay products.....	896.03		
Operation of pilot plant, etc.....	16,948.26	Net loss, Jan. 1, to June 30, 1939.....	59,832.23
Total cost of sales.....	64,368.08		

¹ From annual report of the auditor for the National Food Products Corporation.

Insular Sugar Refining Corporation.—In 1938 the National Development Co. purchased the Insular Sugar Refining Corporation, a going concern located at Mandaluyong, Rizal. The purchase price was ₱3,600,000. The National Development Co. also purchased the machineries and sugar quota rights of the Malabon Sugar Co., paying ₱600,000 therefor. The development company was able to

finance this deal from the funds resulting from an increase in capitalization in the amount of ₱10,000,000 in 1936 from the general fund. However, on October 30, 1937, the general fund was reimbursed in the amount of ₱10,000,000 from the coconut oil excise tax fund.

The investment of ₱3,600,000 mentioned above covered the purchase of the following shares of stock in the Insular Sugar Refining Corporation:

(1) Preferred—8 percent cumulative (authorized 1,584 shares of ₱1,000 each; outstanding 983,164 shares)-----	Pesos 983, 164
(2) Common (authorized 200,000 shares without par value; outstanding 73,656)-----	920, 700
Total-----	1, 903, 864

The National Development Co. then advanced ₱600,000 as a loan to its new subsidiary, Insular Sugar Refining Corporation, to purchase the machineries and the sugar quota rights of the Malabon Sugar Co. In addition to this financing, the development company gave its subsidiary a credit line of ₱2,000,000. As of December 31, 1938, ₱880,418.46 had been borrowed under this authorization; and as of June 30, 1939, ₱1,000,000 had been borrowed.

Tables 34 and 35 reflect the financial condition of the Insular Sugar Refining Corporation as of November 30, 1938, and May 31, 1939.

TABLE 34.—*Condensed balance sheets of the Insular Sugar Refining Corporation for the fiscal years 1938 and 1939*¹

Details	June 30, 1939 ² (figures as of May 31)	Dec. 31, 1938 ² (figures as of Nov. 30)
Assets:	<i>Pesos</i>	<i>Pesos</i>
Cash-----	181, 825. 10	100, 566. 20
Accounts receivable-----	1, 804, 750. 19	162, 591. 36
Inventories-----	576, 388. 75	454, 446. 16
Deferred charges-----	239, 896. 52	288, 875. 37
Real property and equipment (less depreciation)-----	1, 641, 090. 73	1, 582, 685. 70
Other assets-----	513, 333. 34	-----
Total assets-----	4, 957, 284. 63	2, 589, 164. 79
Liabilities:		
Capital stock-----	1, 903, 864. 00	1, 903, 864. 00
Accounts payable-----	1, 605, 377. 62	331, 678. 43
Long-term indebtedness (National Development Co.)-----	640, 000. 00	-----
Other liabilities-----	176, 541. 53	48, 365. 79
Surplus Dec. 1 or Nov. 30, 1938-----	305, 256. 57	305, 256. 57
Net profit Dec. 1, 1938, to May 31, 1939-----	326, 244. 91	(³)
Total surplus-----	631, 501. 48	305, 256. 57
Total liabilities-----	4, 957, 284. 63	2, 589, 164. 79

¹ Taken from reports of the auditor for the Insular Sugar Refining Corporation.

² The fiscal year of the Insular Refining Corporation is from Dec. 1 to Nov. 30 of the following year, hence the figures above reported.

³ No complete data available for profit and loss statement, the corporation having been acquired by the National Development Co. only in September 1938.

TABLE 35.—*Statement of profit and loss of the Insular Sugar Refining Corporation for the fiscal year 1939*¹

Details	June 30, 1939 ² (figures as of May)	Details	June 30, 1939 ² (figures as of May)
	<i>Pesos</i>		<i>Pesos</i>
Sales of refined sugar, etc.-----	5, 202, 289. 05	Selling expenses:	
Cost of sales-----	4, 775, 197. 73	Salaries and commissions-----	21, 382. 22
Deduct increase in inventory-----	115, 869. 58	Other-----	24, 843. 67
Total cost of refined sugar sold-----	4, 659, 328. 15	Total selling expenses-----	46, 225. 89
Gross profit-----	542, 960. 90	Net operating profit-----	496, 735. 01
		Plus other income-----	5, 332. 63
		Total-----	502, 067. 64
		Less other charges-----	175, 822. 73
		Net profit-----	326, 244. 91

¹ Taken from reports of the auditor for the Insular Sugar Refining Corporation.² The fiscal year of the Insular Refining Corporation is from Dec. 1 to Nov. 30 of the following year, hence the figures above reported.

The Commonwealth government cannot justify the purchase of the sugar refineries on grounds of economic adjustment. Any project to fit into a program of economic adjustment must stand at least three tests: (a) It should concern an industry not adequately capitalized by existing private enterprise; (b) it should concern an industry not itself faced by curtailment of profit under the economic provisions of the Tydings-McDuffie Act; (c) it should concern an industry of such future security that it may be relied upon to replace in the general economy those industries faced by legal curtailment of profit. The two sugar refineries, Insular and Malabon, meet none of these tests. They were both going concerns, adequately capitalized and expertly managed, manufacturing all the refined sugar they were permitted to market under the United States and Philippine quota systems. Neither of the refineries had experienced any labor troubles or shut-downs or had in any sense been a public problem.

Under existing laws, profit from any sugar business in the Philippines will be sharply curtailed by the levy of progressive rates of export taxes on Philippine sugar entering the United States market from 1941 to 1946, and in all probability extinguished on July 4, 1946, by levy of full United States foreign import duty. Even if existing laws should be modified so as to continue the progressive rates from 1946 on, the effective extent of the "reprieve" would be for a few years only.

National Warehousing Corporation.—The National Warehousing Corporation is another subsidiary of the National Development Co. organized on July 1, 1938, with an authorized capital stock of ₱1,000,000, divided into 10,000 shares with a par value of ₱100 each. The development company subscribed to 5,105 shares or ₱510,500 par value, of which ₱255,500 was paid up to June 30, 1939.

The corporation was organized mainly for the benefit of farmers. It is authorized to construct, maintain, and operate warehouses; make advances to depositors secured by warehouse receipts for goods or merchandise stored in any of its warehouses, etc.

Table 36 indicates that the corporation had not begun operations during the periods under review.

TABLE 36.—*Condensed balance sheets of the National Warehousing Corporation for the fiscal years 1938 and 1939*¹

Details	June 30, 1939	Dec. 31, 1938
Assets:	<i>Pesos</i>	<i>Pesos</i>
Cash.....	239,619.01	249,020.77
Accounts receivable.....	57.65	-----
Subscription receivable from the National Development Co.....	255,000.00	255,000.00
Fixed assets (less depreciation).....	1,223.69	990.66
Organization expenses ²	15,172.46	5,559.78
Total assets.....	511,072.81	510,571.21
Liabilities and capital:		
Accounts payable.....	50.76	71.21
Deferred credits.....	522.05	-----
Capital stock:		
Authorized.....	₱1,000,000	
Unissued.....	489,500	
Subscribed.....	510,500.00	510,500.00
Total liabilities and capital.....	511,072.81	510,571.21

¹ Taken from audit reports of the auditor of the National Warehousing Corporation.² Organization expenses up to June 30, 1939:

Salaries and directors' per diems.....	₱11,561.50
Traveling expenses.....	1,727.98
Other expenses.....	1,882.98
Total.....	15,172.46

National Power Corporation.—The National Power Corporation was engaged in organization and initial construction activities during the period under consideration. Surveys of possible hydroelectric projects, chiefly in the vicinity of Manila, were made during the period. Pending organization, the National Development Co. has supervised its activities and partially financed them.

Government appropriations were the only receipts recorded. Under Act 120 the government appropriated ₱250,000 for initial activities of the corporation. This figure was later increased to ₱550,000 by Act 344; ₱299,040.77 of this amount was received by the corporation as of June 30, 1939. Expenditures totaling ₱35,942.61 for 1937, ₱170,793.44 for 1938, and ₱69,597.57 for the 1939 period—a total of ₱276,333.62—were incurred. The cash balance on June 30, 1939, was ₱22,707.15 and the unreleased appropriations amounted to ₱250,059.23, on the same date.

Rural Progress Administration Corporation.—On March 2, 1939, the President of the Philippines issued Executive Order No. 191, under the provisions of Act 378, creating the Rural Progress Administration to be composed of five members appointed by him. The purpose of the administration “shall be to promote small land ownership and to improve the living conditions and the general welfare of the rural population.” To carry out this purpose, the administration has been authorized to use the sum of ₱1,500,000 appropriated by Act 378 from coconut oil excise tax funds or such other funds as may be appropriated to that end. On May 31, 1939, Executive Order No. 206 was issued under the provisions of Act 378, as amended by Act 420, authorizing the administration to organize itself into a corporation with a capital stock of ₱1,500,000.

The reports of the Auditor General showed that the government had advanced to the corporation from coconut oil excise tax funds the amount of ₱1,496,007.47 as of June 30, 1939.

People's Homesite Corporation.—The People's Homesite Corporation was organized on October 14, 1938, with a capital stock of ₱2,000,000 subscribed and fully paid by the National Development Co. The corporation is in charge of the development and management of the Diliman estate which has been purchased by the National Development Co. for ₱787,022.35. This housing project aims to improve the condition of the laboring classes and small salaried employees in the city of Manila and suburbs. The estate is to be subdivided into small lots for sale under the installment plan. It was decided to build in the estate a model city and transfer thereto the University of the Philippines.

Up to December 31, 1938, the corporation spent the total sum of ₱818,859.54 for cost of the Diliman estate, survey of the site, office and road equipment, etc. As of June 30, 1939, the assets totaled ₱2,003,350.55 and consisted of current assets, ₱1,068,046.24 of which ₱1,053,050.15 was cash; fixed assets, ₱914,340.55; and organization expenses, ₱20,963.76. The corresponding liabilities were composed of accounts payable, ₱814.83; capital stock, ₱2,000,000; and deferred credits, ₱2,535.72.

Metropolitan Water District.—Construction work during the period under review included the completion of the covered reservoir; extension of the water system to the municipalities of Antipolo, Pateros, Malabon, etc.; completion of filter units and office building and construction of Ipo Dam; the Bicti-Novaliches siphon aqueduct, the Balara Filter Office Building, the blacksmith shops building, and the laborers' quarters. These improvements, together with the expansion of the water and sewer services, were largely responsible for the increase in receipts accruing to the district. Its affairs are administered by the district board.

Receipts in 1938 amounted to ₱2,631,517.07 and compares with ₱2,336,502 in 1937. From January 1 to June 30, 1939, receipts were ₱1,418,455.09. Disbursements amounted to ₱2,331,593.47 in 1937, ₱2,355,216.75 in 1938, and ₱1,380,456.46 in the 1939 period. Net profits credited to surplus were ₱4,908.53 in 1937, ₱276,300.32 in 1938, and ₱37,998.63 in the 1939 period. On January 2, 1938, ₱2,000,000 worth of bonds issued under Act 1323 were redeemed by the district. On April 1, 1938, the sixth issue of the Metropolitan Water District purchase bonds under Act 3255 was sold amounting to ₱500,000. As of June 30, 1939, the outstanding bonded indebtedness of the district was ₱11,500,000. The net worth as of December 31, 1938, was ₱16,914,851.51 and compares with a revised net worth of ₱15,787,358.58 as of December 31, 1937. The current surplus account stood at ₱2,336,533.58 on December 31, 1938, and at ₱2,116,994.27 on December 31, 1937. As of June 30, 1939, the net worth amounted to ₱17,441,427.39 of which ₱2,254,860.97 was current surplus.

Philippine Railway Co.—This company is still under receivership. Reports available in this office indicated that the company continued to sustain losses in its operations for the years 1937, 1938, and the period from January 1 to June 30, 1939. The loss was ₱159,070.21 in 1937; ₱478,336.57 in 1938; and ₱267,192.29 in the first half of

1939. In spite of these discouraging results, it appears that the receivers have been doing their utmost to build up the financial standing of the company.

Textile mills.—As stated in my previous report, the textile mills was one of the projects under study by the National Development Co. It began operations in May 1939. As of June 30, 1939, the company's investment amounted to ₱2,004,213.03. It was reported that consideration was being given to increasing the capital of this enterprise.

The following is a condensed statement of its financial position as of June 30, 1939:

Assets:	Pesos
Accounts receivable.....	6,428.20
Inventories.....	189,616.63
Fixed assets and equipment.....	2,361,509.67
Organization expenses.....	62,619.18
Prepayments.....	40,999.69
Total assets.....	<u>2,661,173.37</u>
Liabilities:	
Accounts payable.....	672,085.71
Capital invested by the National Development Co.....	2,004,213.03
Deduct loss.....	¹ 15,125.37
Net worth.....	<u>1,989,087.66</u>
Total liabilities.....	<u>2,661,173.37</u>

¹ The loss of ₱15,125.37 was arrived at as follows:

Sales up to June 30, 1939.....	\$6,428.20
Cost of sales.....	10,245.08
Gross profit (or loss).....	(3,816.88)
Operating expenses.....	1,318.09
Other expenses (less other income ₱20.27).....	9,990.40
Net loss.....	<u>15,125.37</u>

National Produce Exchange.—This exchange was organized on September 16, 1937. The sales of agricultural products, consisting principally of sugar, rice, tobacco, peanuts, corn, copra, rubber, and cassava starch amounted to ₱11,495.34 for 1937, ₱87,777.91 for 1938 and ₱51,056.55 for 1939—a total of ₱150,329.80.

Operation of the exchange is largely financed from government appropriations. Act 192 appropriated ₱50,000 and Act 245, ₱20,000, a total appropriation of ₱70,000 from government funds up to June 30, 1939. Total receipts to June 30, 1939, were ₱84,531.78 and total expenditures were ₱48,142.15. The excess of receipts over expenditures for the entire period of operations was ₱36,389.63.

Sabani estate.—The investment of the National Development Co. in this estate as of December 31, 1938, and June 30, 1939, was ₱304,202.42 and compares with an investment of ₱299,614.90 on December 31, 1937. There were about 650 tenants cultivating an area of around 2,000 hectares of agricultural land in the estate.

The following statement shows the result of operation for the fiscal years 1937, 1938, and 1939. The loss in 1939 was due to the construction

and maintenance of schools in the estate rather than to ordinary operating expenditures. The fiscal year of the estate ends April 30.

	1939 (Apr. 30)	1938 (Apr. 30)	1937 (Apr. 30)
Income.....	Pesos 26,767.72	Pesos 20,015.23	Pesos 13,204.52
Expenses.....	26,988.49	14,003.87	15,334.24
Profit (or loss).....	(220.77)	6,011.36	(2,129.72)

National Abaca and Other Fiber Corporation, Act 332, approved June 18, 1938.

National Land Settlement Administration, Act 441, approved June 3, 1939.

Reserve Bank, Act 458, approved June 9, 1939.

Agricultural and Industrial Bank, Act 459, approved June 9, 1939.

These corporations were not organized during the period covered by this report. Act 458 creating the Reserve Bank requires the approval of the President of the United States before it becomes effective.

Recommendations and Conclusions Respecting Government Finance and Banking

RECOMMENDATIONS

As in my second annual report, it is recommended that the Commonwealth government give consideration to redeeming that portion of the public debt which is "callable" before maturity.—As of June 30, 1939, this portion of the public debt amounted to ₱19,595,000. The net uncovered public debt as of June 30, 1939, amounted to ₱79,582,982.84.

Consideration should be given to establishing adequate sinking funds for the retirement of the funded debt of the Manila Railroad Co.—The bonded and long-term debt of the Manila Railroad Co. as of June 30, 1939, amounted to ₱51,474,483.49. The privately held bonded debt amounted to ₱35,142,000, some of it maturing as late as 1959. It is believed that this debt became a direct liability of the Commonwealth under section 2 (a) (7) of the Tydings-McDuffie Act. It would seem that the funded debt of the Manila Railroad should receive the same consideration as the rest of the public debt. The use of the coconut oil tax funds for this purpose would materially enhance confidence in the fiscal policies of the Commonwealth government.

It is again recommended that no steps be taken to diminish the reserves behind the currency in spite of their apparent redundant amount.—My position on this subject is set forth in the discussion of the proposed reduction of reserves (pp. 224–225).

It is recommended that the Commonwealth government give more consideration to correlating with its capital investment program, more particularly the public works projects, an adequate financial program to take care of repair, depreciation and replacement.—The period under review was characterized by unprecedented capital investment. Such investment will entail over the life of the capital assets expenditures for replacements and repairs; these items will become heavy recurring charges on future budgets.

It is recommended that steps be taken to avoid the continuing evil of appropriating sums prior to their collection.—My comments on "over-appropriations" on page 89 of my annual report for 1937 are doubly applicable to the period under review. The over-appropriation of the coconut oil excise taxes cannot be called sound fiscal legislation and should be avoided in future.

In view of the extension of government-owned corporations, it would seem pertinent again to recommend that the Commonwealth government avoid insofar as possible competition with private capital and that when any satisfactory offer is received from private entities to purchase any of its industrial institutions, the government should seriously consider its acceptance.—In the process of preparing Philippine economy for a stable and independent existence it is unwise to lose sight of the fact that in free democratic countries the economic activity should be primarily in the hands of the citizens. Without a sound and extensive private economy there appears little chance for nonpolitical or normal growth or readjustment of economic factors.

Because of the increasing number of government-owned corporations, it is recommended that the Auditor General give consideration to the submission of an annual report which would fully cover these financial activities of the national government.—The capitalization of Philippine government-owned corporations, including the Manila Railroad, and the government-owned banks, is more than twice the uncovered public debt. For this reason, accurate and detailed reports of the same nature as those covering the ordinary operations of government are necessary if the responsible officials are to be in a position of correctly appraising fiscal policies.

It is again recommended that the Commonwealth enact and submit to the President of the United States a measure whereby, on a given formula of rice shortage (such as estimated crop of less than a standard per capita quantity), the National Rice and Corn Corporation may import the deficit free of duty.—This action would avoid the questionable practice of admitting company rice free of duty under the excuse of emergency, while levying the duty on private importers.

It is again recommended that under no circumstances should the government increase its investment in the Philippine Railway Co.—During the period under review, Philippine Railway Co. bonds carried in the accounts of the Postal Savings Bank and the Metropolitan Water District were redeemed with cash, in accordance with the recommendations in the 1937 report.

General conclusions.—June 30, 1939, found Philippine Government finances in an excellent technical position, but severely qualified by a departure from financial realism involving more than a threat of inflation. The disturbing trend was generated by receipt, appropriation, and the beginning of actual expenditure of the coconut oil excise tax fund. This fund is in effect a grant from the United States Government to the Philippines, and is of indefinite duration, except that it cannot be expected to continue longer than the date of independence, 1946. While so far its uses are unrestricted by Congress, there have been informal understandings that it would be used mainly for purposes of reforming Philippine economy to with-

stand better the shock occasioned by loss of trade preferences in the United States market incident to independence.

The problem of maintaining an economic-financial equilibrium—that is, the avoidance of inflation, and of financial dependence on the United States—is a serious one, to which it does not appear that Commonwealth authorities have given sufficient attention. Admittedly, dogmatic conclusions cannot be drawn at this time. The tempo of spending temporary windfall revenue from the United States Treasury, and the nature of the projects to be undertaken with such funds present difficult questions.

The outlines of the following effects of the availability of the coconut oil excise taxes were clearly discernible as the period under review closed:

a. The windfall nature of the funds and their size had encouraged a degree of financial improvidence on the part of the Commonwealth government.

b. The spending of the funds had greatly increased the personnel of the government and the number of individuals who owe a temporary prosperity to governmental spending. The result has been a large increase in circulation, bank credit, and stimulation of business to near boom conditions. Such trends are not in harmony with the principles of sound government finance.

c. The Commonwealth government is placed in a position of financial dependency upon the United States not contemplated in the Tydings-McDuffie Act and not paralleled during any past period of American-Philippine relations.

From 1903 to 1937 Philippine government finances were very closely a function of the economic structure. When domestic and overseas trade were active or when new taxes were levied, circulation and the budget increased and wealth accumulated; when trade declined in quantity or in value, circulation contracted, government expenditures were restricted, and a part of the nation's savings were brought into play. With the advent of windfall revenue reaching a ratio of 39.82 percent ¹¹ to national government operating revenues, the conservative relation between government income and national wealth was broken. Thus, irrespective of type of expenditure, as these relatively large funds are put out by the government they tend to raise public and private pay rolls, wage rates, and costs of production to levels which cannot be sustained from indigenous revenue after independence, particularly as at that time loss of United States trade preferences will indicate contraction of circulation, of normal public revenue, and of wealth.

IX. Business, Trade, and General Economy

The data furnished in the economic section itself cover in some detail the overseas trade, transportation, domestic trade and industry, and a brief discussion for the calendar year 1938 as compared with the calendar year 1937. Partial data for the first half of 1939 also is included. The treatment of overseas trade is supplemented in "Review of 1938 Foreign Trade of the Philippine Islands" Special Report No. 39/23 of Mr. Paul P. Steintorf, American Trade Commissioner, Manila, which will be found as appendix H.

¹¹ Covering period from January 1, 1935, to June 30, 1939. Coconut oil excise taxes plus interest collected during this period amounted to ₱154,059,262.76; all other receipts in the general fund of the national government during this period amounted to ₱386,899,795.94. (Coconut oil collections from June 10, 1934, to December 31, 1934, amounted to ₱15,280,762.90; other receipts in the general fund for this period could not be accurately determined.)

Overseas Trade

In spite of its general agricultural character, Philippine economy is firmly rooted in the production of raw materials for shipment abroad. For this reason, the statistical position of overseas trade is exceptionally important as an indicator of economic trends.

Total trade.—The total value of overseas trade including gold and silver at its current valuation amounted to ₱570,942,599¹² during 1937. The corresponding figure for 1938 was ₱559,216,436¹³; for the first half of 1939, ₱270,747,447 (first half 1938, ₱314,270,338). Dividing for exports and imports, and deriving the visible balances, the values of overseas trade for the 2 years were as follows:

	1937	1938	1939 (January-June)
Excluding gold and silver:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Exports.....	302,532,500	231,599,554	136,030,452
Imports.....	218,051,490	265,215,095	99,946,387
Total trade.....	520,583,990	496,805,649	235,976,839
Visible balance.....	+84,481,010	-33,624,541	+36,084,065
Including gold and silver, with gold bullion at U. S. \$35:			
Exports.....	352,891,109	294,001,341	170,801,060
Imports.....	218,051,490	265,215,095	99,946,387
Total trade.....	570,942,599	559,216,436	270,747,447
Visible balance.....	+134,839,619	+28,786,246	+70,854,673

While the over-all trade value for 1938 was 2 percent below that for 1937, in both years trade values were greater than any previous years except 1920, 1928, and 1929.

Exports.—The value of exports including gold and silver for 1938 was ₱294,001,341, about 17 percent below 1937. Inspecting quantities and values, it appears that the decrease was due to lower price levels. Embroideries, cutch, and mineral products registered increased values over those of the preceding year, and increased quantities of coconut products and leaf tobacco were shipped. Sugar at ₱100,043,713 continued to be the chief export and accounted for more than a third of the total value. Gold was second at ₱61,013,588. Coconut products (copra, coconut oil, copra cake and meal, and desiccated coconut) with a combined value of ₱59,172,739 were in third place. Abaca (Manila hemp) was fourth at ₱20,318,347. Exports during the first half of 1939 at ₱170,801,060 showed an increase of 6 percent as compared with ₱160,475,967, the corresponding figure for the first half of 1938.

Imports.—1938 imports increased 22 percent over the 1937 value, ₱265,215,095 against ₱218,051,490. This increase was distributed over practically all import items. Cotton manufactures at a total value of ₱43,812,099 outranked all other groups of import goods. Iron and steel goods were second at ₱26,011,553, followed by machinery at ₱19,582,425, tobacco products at ₱15,866,881, and mineral

¹² The Collector of Customs' total trade figure for 1937 was ₱551,972,884 with gold bullion valued at U. S. \$20.67 per fine ounce.

¹³ The Collector of Customs' total trade figure for 1938 included revised values of gold bullion at approximately U. S. \$35 per fine ounce.

oils at ₱15,818,175. For the first half of 1939 imports were valued at ₱99,946,387, a decline of 35 percent from the ₱153,794,371 for the first half of 1938.

Trade with the United States.—As a result of reciprocal free trade relations, trade with the United States accounted for the bulk of Philippine overseas trade. Shipments to the United States including gold and silver items totaled ₱243,302,378 for 1938 as compared with ₱293,697,146 for the preceding year. Goods shipped to the Philippines from the United States, its territories and possessions were valued at ₱181,556,478 for 1938 against ₱127,313,056 for 1937. While there was no change in the relative position of the United States in Philippine export trade, the American participation in both 1937 and 1938 being 83 percent, the relative position of the United States as a supplier of Philippine imports improved greatly, from 58 percent in 1937 to 68 percent in 1938.

There was no substantial change in the American share in Philippine overseas trade for the first half of 1939. Philippine exports to the United States, its territories and possessions, gold and silver items included were ₱142,161,179 against ₱135,944,929 for the first 6 months of 1938. Imports from the United States, its territories and possessions for the same periods were ₱65,098,636 in 1939 against ₱108,261,739 in 1938.

Trade with other countries.—Japan in 1938 maintained second place both as purchaser and supplier in Philippine overseas trade. The third important purchaser was Great Britain, followed by the Netherlands, France, Denmark, and Germany. In 1937 Germany was fourth purchaser, with the Netherlands fifth, and France tenth. Germany was third supplier of Philippine import requirements during 1938, with China, the Netherlands Indies, the Netherlands proper, and Great Britain following in the order named. Germany was also third supplier in 1937, followed by China and Great Britain. The first 6 months of 1939 showed Japan and Great Britain in second and fourth positions, respectively. During this period the Netherlands out-ranked Great Britain in Philippine export trade, while Germany was in third position as a supplier of Philippine imports.

The visible balance.—In one respect the trade of 1938 was exceptional. The visible balance, which had not fallen below +₱30,000,000 in any year since 1931 and which averaged almost +₱57,000,000 during the decade 1928 to 1937, was only +₱28,786,246. This balance contrasted radically with the all time record of +₱134,839,619 in 1937. Placing 1938 figures against the previous 10-year averages of ₱263,000,000 exports and ₱206,000,000 imports, it will be seen that imports were 29 percent and exports 12 percent above the decade averages. The maintenance of favorable balances was as usual the result of heavy sales in the American market. The negative balance of Philippine trade with all other countries amounted to ₱32,959,654 in 1938. This sum was entirely absorbed by the favorable balance in trade with the United States amounting to ₱61,745,900.

The first half of 1939 gave a favorable balance of ₱70,854,673 as compared with only ₱6,681,596 for the corresponding period of 1938.

Per capita trade.—The per capita shares in overseas trade, including gold at current value, for the years 1937 and 1938 were as follow:

Year	Estimated population	Per capita shares		
		Exports	Imports	Total
1937.....	¹ 15,054,500	<i>Pesos</i> 23.44	<i>Pesos</i> 14.48	<i>Pesos</i> 37.92
1938.....	² 15,984,247	18.39	16.59	34.98

¹ Population estimate used by the Treasurer of the Philippines.

² Population estimate in preliminary reports released by the Census Commission as of Jan. 1, 1939.

Charts of overseas trade.—The monthly value of imports and exports and their trend from January 1936 to June 1939 are shown on charts 1 and 2. The 10-year moving average of Philippine overseas trade and visible balance are shown in charts 3 and 4.

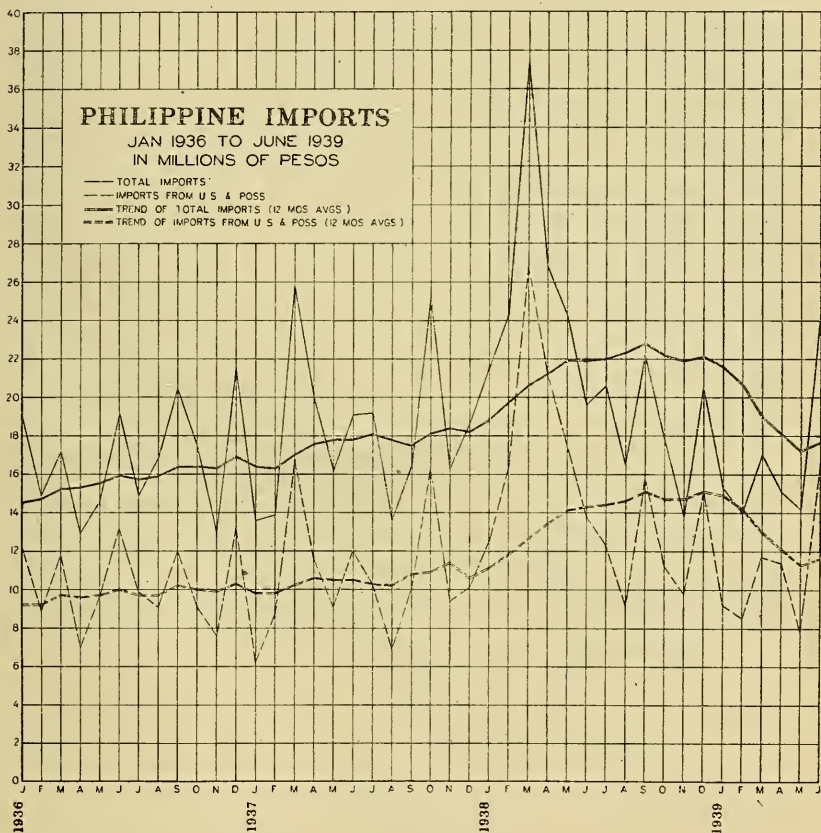


CHART 1

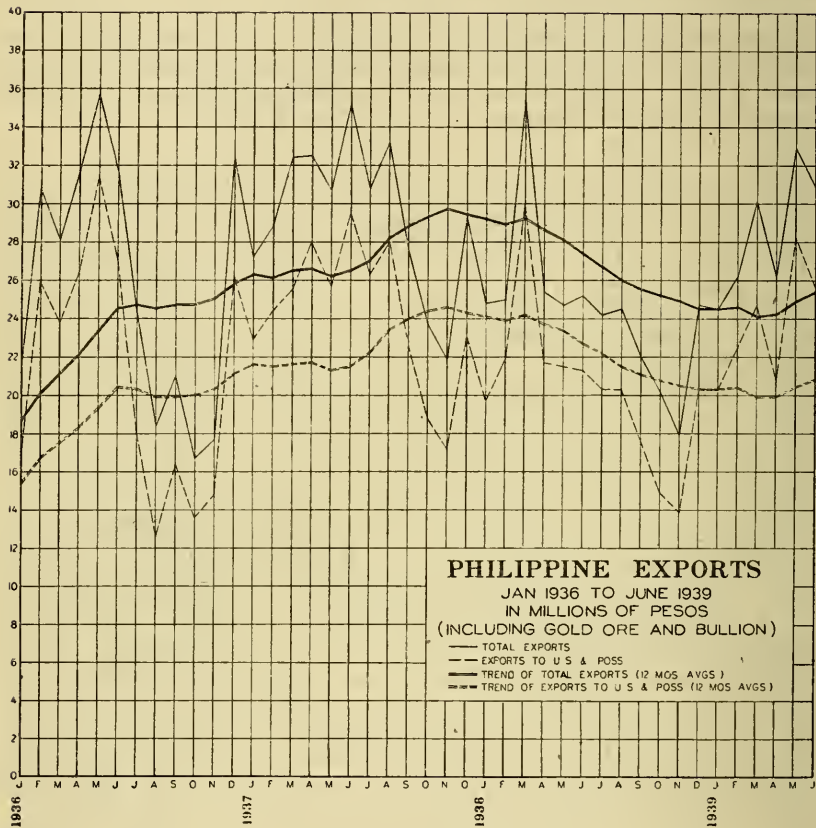


CHART 2

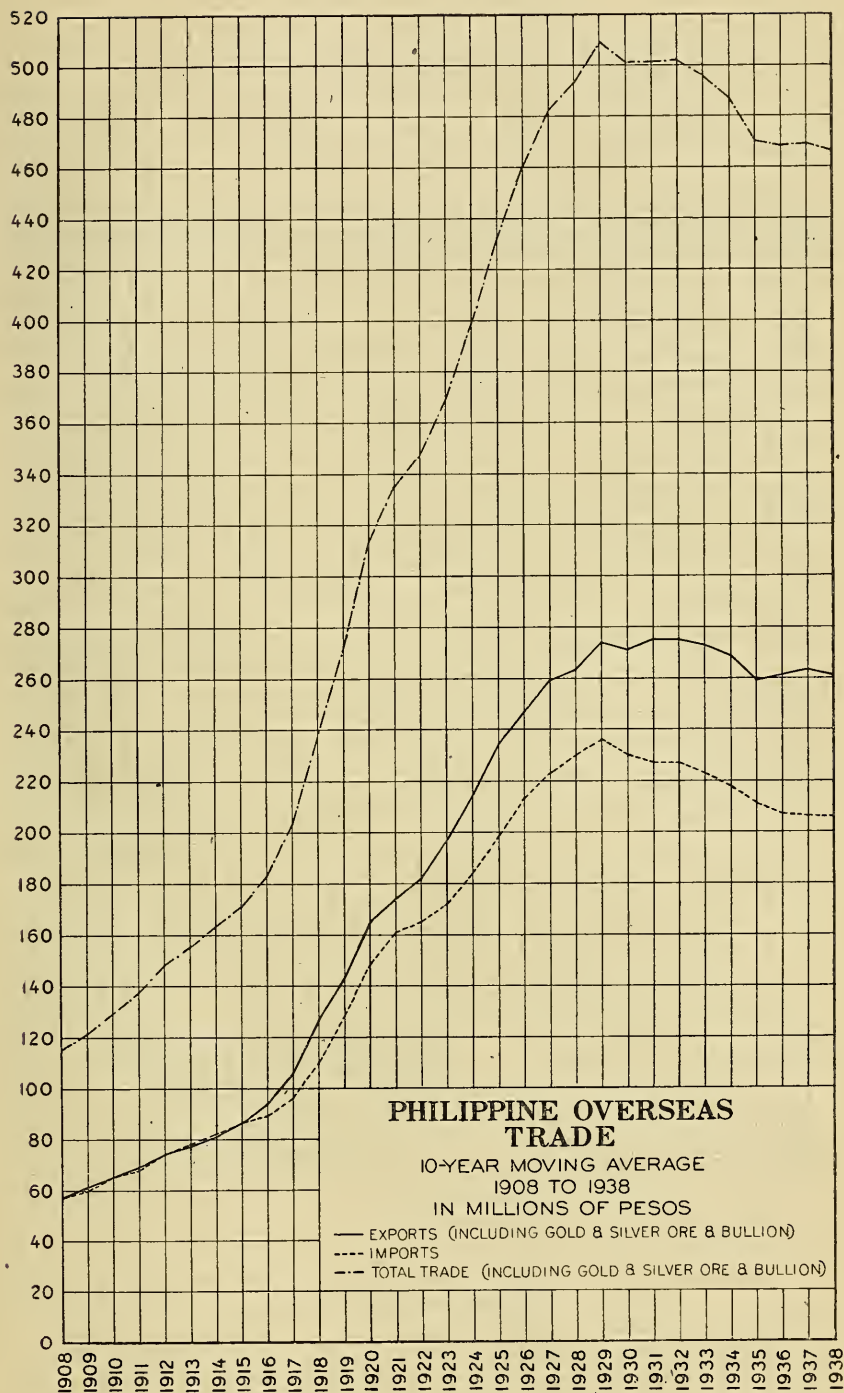


CHART 3

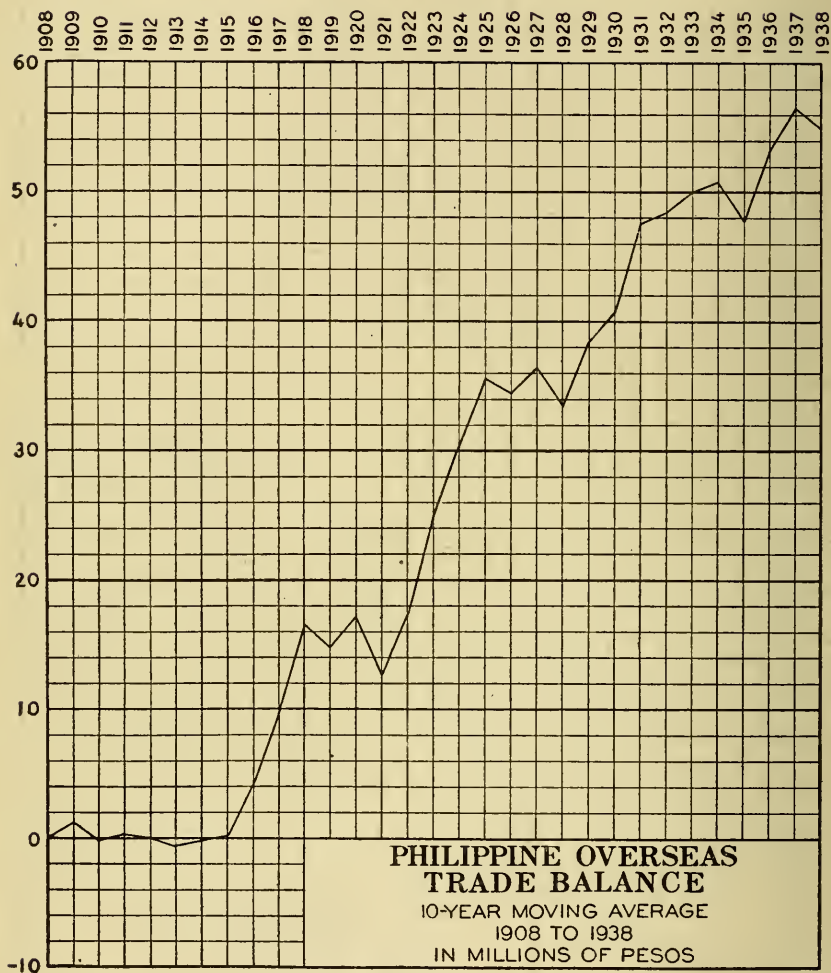


CHART 4

Philippine Commodity Quotas

Sugar quotas.—The Philippine Sugar Administration, established by Executive Order of the President of the Philippines No. 118, under authority of Commonwealth Act 236, administered the enforcement of the Philippine quota of sugar for shipment to the United States under the United States Sugar Act of 1937 (50 Stat. 903), as well as the locally established domestic consumption and reserve quotas. The United States Secretary of Agriculture on December 20, 1937, issued General Sugar Quota Regulations, Series 5, No. 1, establishing a quota of 1,057,416 short tons, raw value, for marketing in continental United States, with permission that not more than 80,214 short tons, raw value, of the quota might be filled by shipments of direct consumption sugar, including refined sugar. In anticipation of this action, and for the purpose of licensing Philippine sugar mill companies to commence milling of the 1937-38 crop before the close of the year, the Philippine Sugar Administration, in Philippine Sugar Order No. 2, September 22, 1937, allocated to mills and planters a total of 952,000 short tons, commercial weight, of centrifugal sugar, proportionately on the basis of their average annual production during the 3 calendar years 1931, 1932, and 1933. This allocation included 56,000 short tons, commercial weight (equivalent to approximately 59,920 short tons, net weight, raw value) refined sugar. The refined sugar allotments were distributed to refineries proportionately on the basis of their shipments to continental United States during the preceding calendar year.

The 1938 allotments of domestic and reserve sugar quotas were first set up in May 1937 at 92,928 and 57,377 short tons, respectively. These were modified in October by suspension of the reserve allotments because of a calculated carry-over of domestic sugar in excess of 20,000 short tons, and of a stock of reserve sugar greater than 10 percentum of the combined United States and domestic consumption quotas.

In accordance with the provisions of the Tydings-McDuffie Act (48 Stat. 456) duty-free entry of Philippine sugar into the United States was limited to 896,000 short tons, commercial weight, of unrefined sugar, and 56,000 short tons, commercial weight, of refined sugar. Shipments in any year in excess of these quantities must pay the full foreign duty on entry into the United States. In view of assurances made by the Commonwealth Government that the Philippine sugar industry would not desire in 1938 to ship dutiable sugar to the United States, the Secretary of Agriculture on June 10, 1938, reduced the Philippine quota to 991,020 short tons, raw value, inclusive of 84,214 short tons, raw value, of direct consumption sugar.

On the basis of reports by the United States Bureau of Customs, approximately 897,683 short tons, commercial weight, of sugars entered the United States from the Philippines during the year 1938, of which amount 56,000 short tons were refined sugar. The final reports showed the actual commercial weight as 895,886 short tons, including 55,999 short tons of refined sugar.

The 1939 allocation of the United States sugar quota was made in Philippine Sugar Order No. 15, October 10, 1938, in the same terms as for the 1938 quota year. The domestic quota was placed

at 75,000 short tons, and no reserve quota was issued due to excess stocks.

The 1939 United States sugar quota for the Philippines was announced by the Secretary of Agriculture on December 23, 1938, at 1,052,854 short tons, raw value, inclusive of 80,214 short tons, raw value, which might be filled by direct consumption sugar. The inclusive figure was subsequently reduced on March 1, 1939, to 1,041,023 short tons, raw value.

The Hon. Rafael R. Alunan, Philippine Sugar Administrator, was relieved and appointed Secretary of the Interior on November 16, 1938. He was succeeded by the Hon. Gil Montilla, formerly Speaker of the First National Assembly, and the owner of several sugar mills and plantations.

The satisfactory financial result of sugar limitation in the Philippines reported in the first and second annual reports of the United States High Commissioner continued evident during the year 1938. The average annual income from sugar shipped from the Philippines to continental United States, including benefit payments, for the period 1934 to 1938, amounted to ₱113,138,122. This figure is in excess of returns for any year previous to enforcement of limitation except 1932 and 1933, when sugar millers and planters, aware of impending limitation, engaged in a quota race, resulting in abnormally high production of sugar for the United States market. The following table shows the quantity of, and income from, Philippine sugar shipments to the United States during the 10-year period, 1929 to 1938, inclusive:

Year	Quantity of sugar shipped to United States	Income from sugar shipped to United States and benefit pay- ments ¹
	<i>Metric tons</i>	<i>Pesos</i>
1929.....	695,868	106,488,298
1930.....	743,980	104,480,451
1931.....	752,932	99,926,210
1932.....	1,016,568	119,603,769
1933.....	1,078,653	128,666,851
1934.....	1,152,841	130,909,161
1935:		
Shipments.....	516,233	65,981,359
Benefit payments.....		24,931,112
Total income.....		90,912,471
1936:		
Shipments.....	899,615	123,854,367
Benefit payments.....		5,788,198
Total income.....		129,642,565
1937.....	868,008	115,221,041
1938.....	867,938	100,005,372

¹ Annual reports of the Insular Collector of Customs.

In view of the continuance in effect of the International Sugar Agreement to which the Commonwealth government was a party, no sugar was exported in 1938 from the Philippines to countries other than the United States.

Cordage quota.—The Office of the President of the Philippines continued administrative control of allocation and enforcement of

the United States Philippine cordage quota of 6,000,000 pounds under the Tydings Cordage Act (49 Stat. 340). Allocation for the quota year May 1, 1937, to April 30, 1938, was effected by Executive Order of the President of the Philippines No. 101, June 14, 1937, and that for the quota year May 1, 1938, to April 30, 1939, by Executive Order of the President of the Philippines No. 150, April 28, 1938. The allotments were made on the manufacturers' coefficients established in Executive Order of the Governor-General No. 898, October 28, 1935. The Insular Collector of Customs continued as permit officer in reference to cordage shipments.

Coconut oil quota.—No allocation of the United States Philippine coconut oil quota of 200,000 long tons as provided in section 6 (b) and (d) of the Tydings-McDuffie Act (48 Stat. 456) was made inasmuch as the fixed duty-free limit had not yet been reached. Shipments of coconut oil to the United States during 1937 amounted to 160,306 metric tons (1 metric ton=.9842064 long ton), and during 1938, only 159,564 metric tons were shipped to the United States.

Japanese cotton textile quota.—A second 12-month extension of the Japanese cotton textile quota agreement was announced on July 25, 1938, by the State Department, covering the period August 1, 1938, to July 31, 1939. The extension provided for a limitation to 45,000,000 square meters of cotton textiles of Japanese origin imported into the Philippines from whatever source, including transshipments. Under the Japanese cotton textile quota agreement shipments of Japanese cotton textiles to the Philippines during the years ending July 31, 1939, were limited to a total of 180,000,000 square meters. Actual imports of these goods into the Philippines from Japan during the period covered, compiled from reports of the American Trade Commissioner, Manila, follow:

	<i>Square meters</i>
Imports during the 2 quota years originally covered by the agree- ment, Aug. 1, 1935, to July 31, 1937-----	107,504,000
Aug. 1, 1935 to July 31, 1937-----	107,504,000
Actual arrivals during the quota year Aug. 1, 1937, to July 31, 1938--	41,936,475
Actual arrivals during the quota year Aug. 1, 1938, to July 31, 1939--	24,177,657
<hr/>	
Total imports of Japanese cotton textiles during the 4 quota years Aug. 1, 1935, to July 31, 1939-----	173,618,132

While there was no apparent benefit to United States cotton textile shippers to the Philippines during the first 2 years of the enforcement of the Japanese cotton textile quota, the advantage of the limitation became evident by the end of the quota year 1937-38 and was reaffirmed by the results at the end of the quota year 1938-39. During the quota year 1936-37 United States participation in the Philippine cotton textile market was limited to 33 percent as compared to 56 percent for Japan, on a yardage basis. This participation improved to 59 percent as against 32 percent for Japan during the quota year 1937-38 and for the quota year 1938-39 the share of United States cotton textiles increased to 74 percent and the share of Japanese cotton textiles declined further to 19 percent. Regardless of the effects of curtailment of Japanese shipments to the Philippines resulting from restrictions incident to the Japanese campaign in China, the United States definitely recovered position as dominant source of Philippine cotton textile requirements, a position which

was seriously impaired during the years immediately prior to the agreement.

Transportation

High-seas carrying trade.—High-seas cargo tonnage in 1938 showed only a slight improvement as compared with 1937. Due to radical curtailment of the Dollar Steamship Co.'s services, participation of vessels of American registry decline further in relative position from approximately 25 percent to 16 percent of the total value of both inward and outward cargo. This decline was taken up by vessels of British, Danish, Norwegian, Netherlands, and German registries.

Philippine overseas commerce was carried in 1938 on 630 vessels and 3 aircraft. In number of vessels there was only a slight increase over the 614 which served Philippine high-seas commerce in 1937. Registry of vessels entered in 1938 included: British, 189 vessels; Japanese, 140 vessels; Norwegian, 76 vessels; United States, 57 vessels and 3 aircraft; the balance being distributed among 8 other registries including 11 vessels of Philippine registry.

British vessels continued in premier position both as regards tonnage and value of cargo carried over all sea routes in 1938. The competition in respect to tonnage carried and its declared value is shown in table 37.

TABLE 37.—*Volume and value of Philippine overseas cargo by nationality of carriers, 1937 and 1938*¹

Nationality	1937		1938	
	<i>Metric tons</i>	<i>Pesos</i>	<i>Metric tons</i>	<i>Pesos</i>
OUTWARD				
United States.....	452, 155	94, 120, 682	200, 214	31, 800, 204
British.....	396, 584	65, 668, 618	655, 418	59, 782, 861
Japanese.....	902, 082	63, 495, 815	1, 009, 900	57, 018, 319
Norwegian.....	398, 909	39, 855, 346	431, 923	31, 443, 786
Netherlands.....	53, 968	12, 429, 521	144, 356	12, 883, 436
German.....	81, 951	8, 609, 954	121, 193	9, 416, 705
Danish.....	82, 379	10, 664, 384	150, 581	13, 974, 940
Others.....	343, 826	10, 216, 378	306, 911	13, 937, 849
Total.....	2, 741, 854	305, 060, 698	3, 080, 499	230, 264, 100
INWARD				
United States.....	314, 428	42, 587, 362	281, 453	48, 399, 677
British.....	634, 807	83, 071, 236	655, 185	110, 606, 653
Japanese.....	281, 706	24, 438, 912	136, 247	18, 727, 469
Norwegian.....	208, 816	16, 403, 202	278, 585	28, 792, 210
Netherlands.....	142, 278	14, 621, 246	154, 636	17, 880, 580
German.....	66, 607	13, 802, 359	70, 949	15, 908, 341
Danish.....	47, 102	7, 592, 414	55, 581	13, 022, 091
Others.....	175, 327	9, 696, 754	190, 656	6, 491, 876
Total.....	1, 871, 071	212, 213, 485	1, 823, 292	259, 828, 897

¹ Annual reports of the Insular Collector of Customs for 1937 and 1938.

Considering only the value of United States-Philippine trade, American bottoms carrying approximately 20 percent, relinquished first position to British bottoms which accounted for about 36 percent. Norwegian, Japanese, and German bottoms shared 15, 13, and 12 percent, respectively.

American cargo in Philippine trade continued to be loaded or unloaded at Atlantic ports to the extent of two-thirds of the total value, with only a small fraction at Gulf ports, and nearly a third at Pacific ports.

Philippine ports, in point of value of Philippine overseas cargo cleared and entered, showed Manila, Iloilo, Cebu, and Davao as leading in the order named. Legaspi, Zamboanga, and Jose Pangniban accounted for satisfactory portions, principally in outbound cargo, while participation of Jolo and Aparri was relatively negligible.

Coastwise trade.—There were over 1,700 steam, Diesel, and sailing vessels with a total net tonnage of 88,300 operating over interisland routes in 1938, as compared with 1,500 vessels, net tonnage 81,300, for 1937. These vessels made 22,401 entries and 22,620 clearances during the year.

Harbor improvements.—From the port works fund derived from wharfage fees, the government spent ₱2,321,189.58 in 1938 for maintenance and improvement of harbors and port works as compared with ₱5,587,975.25 in 1937. The Manila Harbor board was abolished on June 4, 1938, by Commonwealth Act 285, and its powers and duties were transferred to the Bureau of Customs. For the year 1939 there was appropriated by Commonwealth Act 330 ₱2,400,000 for investigation, construction, and improvement of ports, lighthouses, buoys, beacons, including ₱100,000 for construction and improvement of national airports and landing fields.

Land transport.—Movement by rail on Luzon over the lines of the Manila Railroad Co. measured 1,543,270 metric tons, slightly under the 1,575,058 metric tons reported for 1937. Decreases in quantities of rice, sugarcane, centrifugal sugar, and manufactured goods outweighed increases in loadings of palay, copra, mineral, and forest products. Nearly one-half of the tonnage carried was sugar, including both cane and centrifugal. The financial situation of the Manila Railroad Co. is covered on pages 249-254 of this report.

Registration of private trucks in 1938 totaled 10,563 units as against 10,198 for 1937. In addition there were 1,836 truck units registered by cargo transport operators, compared with 1,605 units for the preceding year. The number of passenger and baggage carrying busses in public service increased from 3,906 to 4,123. Registrations for 1938 covering all motor vehicles totaled 51,751 or a moderate increase over the 1937 total of 49,194. No report on motor transport, freight, and passenger, operations are available but in view of the increases in registration figures it may be assumed that satisfactory volume was maintained.

The suit seeking to prevent the establishment by the Manila Railroad Co. of feeder bus and truck lines without regard to exclusive franchises granted by the Public Service Commission to private bus companies was decided by the Philippine Supreme Court in favor of the railroad. The decision was appealed to the United States Supreme Court by means of a petition for writ of certiorari. On December 10, 1938, that court denied the petition, thereby finally determining the right of the Manila Railroad Co. to operate highway buses without certificates of public convenience from the Public Service Commission and in disregard of what were previously considered exclusive franchises in favor of well-established and regularly operating private bus companies.

Aviation.—Pan American Airways Co. maintained regular and excellent trans-Pacific service during 1938, its second year of opera-

tion. The number of passengers carried totaled 1,019 as compared with 911 for 1937; air mail reached 7,385 pounds for 1938 as against 7,232 pounds for the preceding year; and air express cargo was reported at 10,399 pounds compared with 9,865 pounds for 1937. There was only one air disaster on the United States-Philippine air transport run, the total loss of the "Hawaii" Clipper; the disaster occurred on the final leg of the run between Guam and the Philippines.

The Philippine Aerial Taxi Co. (PATCO) and the Iloilo-Negros Air Express Co. (INAE) continued operations on regular schedules. In addition to these two organizations, letters of authority for nonscheduled air service were issued during 1938 to John R. Schultz, Juan Elizalde, and the American Far Eastern School of Aviation.

The report of the Bureau of Aeronautics for 1938 showed domestic air service operations as follows:

	1937	1938
Number of passengers carried, commercial, including scheduled and nonscheduled flights-----	22, 384	21, 728
Number of passenger-miles flown, commercial, excluding nonscheduled flights-----	1, 699, 627	1, 577, 639
Number of miles flown, commercial, including scheduled and nonscheduled flights-----	844, 003	783, 893
Pounds of air express carried, including scheduled and nonscheduled flights-----	88, 600	1, 043, 387
Pounds of air mail carried-----	5, 324	8, 661

The total public and private investment in airplanes, fields, offices, hangars, and equipment, exclusive of Pan-American, was estimated at the close of 1938 at ₱3,997,000, or an increase of ₱523,000 over the figures reported at the close of 1937.

Airfields and airports.—The Central National Airport remained under construction at the end of 1938. The total amount provided for this project at the close of the year was reported at ₱1,800,000. Landing fields including those at Manila and the Provinces were classed and listed as follows as of December 31, 1938:

National airports-----	43	Military:	
National emergency fields-----	8	United States Army-----	5
Private airports-----	7	Philippine Army-----	4
Auxiliary fields-----	8	Unclassified-----	8
		Total-----	83

Domestic Trade and Industry

The collection and publication of statistical information has not been organized in a degree adequate to determine either the national wealth or the approximate value of domestic production. Collection is impeded at several points. A major fraction of food crops are consumed directly by the farmer and an additional large fraction is traded within the villages. Reliable statistics are not available as to the value of inshore fish catch and farm site poultry and swine production which with rice, corn, and tubers form the staple foodstuffs.

Without attempting to estimate total domestic production, attention centers on the official statistical data for production in the three principal extractive industries—agricultural, mineral, and forest production. Additional indicators of domestic economy are found in gross sales of merchants (although this includes transactions in ex-

port and import commodities), value of real-estate transactions, construction, and electric current consumption.

Agricultural production.—Agricultural production arranged in two sections to show separately those crops raised mainly for export and those mainly for domestic consumption is set out in the following table:

TABLE 38.—Comparative statistics of the principal crops of the Philippines for the agricultural years ending June 30, 1937 and 1938¹

Crop	1937	1938
MAINLY FOR EXPORT		
Sugarcane:		
Cultivation, hectares	257,060	227,930
Production of sugar, ² piculs ³	17,013,430	16,000,660
Value, pesos ⁴	116,666,300	113,558,610
Coconut:		
Cultivation, hectares	637,950	643,110
Production of nuts, number	2,982,854,430	3,450,104,000
Value, pesos ⁵	83,326,390	92,126,490
Abaca (manila hemp):		
Cultivation, hectares	502,710	508,340
Production of fiber, piculs	3,171,970	2,607,350
Value, pesos	25,119,710	22,672,340
Tobacco:		
Cultivation, hectares	74,040	74,796
Production, quintals ⁶	725,200	781,382
Value, pesos	4,092,720	4,125,460
Magney:		
Cultivation, hectares	37,850	38,800
Production of fiber, piculs	376,630	279,820
Value, pesos	1,969,260	1,446,380
Rubber:		
Cultivation, hectares	3,820	3,845
Production, kilograms	712,720	814,530
Value, pesos	488,590	567,260
Kapok:		
Cultivation, hectares	7,587	7,669
Production of fiber, kilograms	1,413,850	1,452,130
Value, pesos	458,640	473,260
Subtotal mainly for export:		
Cultivation, hectares	1,521,017	1,504,490
Value, pesos	232,121,610	234,969,800
MAINLY FOR DOMESTIC CONSUMPTION		
Palay (unhusked rice):		
Cultivation, hectares	2,060,960	1,912,050
Production, cavans ⁷	55,015,730	52,345,210
Value, pesos	134,395,190	136,423,060
Corn (shelled):		
Cultivation, hectares	659,400	702,530
Production, cavans ⁸	7,678,080	8,782,420
Value, pesos	17,983,350	19,423,630
Sweetpotatoes and other tubers:		
Cultivation, hectares	114,451	117,850
Production, kilograms	333,854,500	335,087,780
Value, pesos	5,431,360	5,413,560
Beans:		
Cultivation, hectares	7,873	9,292
Production, kilograms	4,128,970	4,406,300
Value, pesos	394,960	460,280
Other vegetables:		
Cultivation, hectares	23,638	25,514
Production, kilograms	32,636,790	34,576,920
Value, pesos	1,786,020	1,924,170

¹ *Bulletin of Philippine Statistics*, Department of Agriculture and Commerce, vol. 6, Nos. 1-2.

² Includes only centrifugal, *muscorado* (raw) and *panocha* (cakes).

³ Picul is 63.25 kilograms.

⁴ Also includes value of *bast* (sugar wine) and molasses; ₱11,676,887 in 1937; ₱4,577,468 in 1938.

⁵ Includes value of nuts consumed fresh, copra, home-produced oil, and *tuba* (beverage). Does not include added value of commercially produced oil.

⁶ Leaf tobacco quintal is 46 kilograms.

⁷ Palay cavan is 44 kilograms; cleaned rice cavan is 57.5 kilograms; to convert cavans of palay at 44 kilograms into cavans of cleaned rice at 57.5 kilograms, divide by 28.

⁸ Shelled corn cavan is 58 kilograms.

TABLE 38.—*Comparative statistics of the principal crops of the Philippines for the agricultural years ending June 30, 1937 and 1938—Continued*

Crop	1937	1938
MAINLY FOR DOMESTIC CONSUMPTION—continued		
Bananas:		
Cultivation, hectares	92, 187	92, 256
Production, bunches	47, 626, 990	47, 857, 770
Value, pesos	9, 638, 780	10, 311, 630
Citrus fruit:		
Cultivation, hectares	5, 418	5, 528
Production, number	45, 616, 350	44, 335, 540
Value, pesos	633, 350	609, 040
Mangoes:		
Cultivation, hectares	15, 052	15, 303
Production, number	100, 673, 270	103, 433, 750
Value, pesos	1, 947, 200	2, 232, 900
Pineapples:		
Cultivation, hectares	4, 206	4, 730
Production, number	16, 121, 410	18, 222, 150
Value, pesos	564, 790	853, 230
Other fruit:		
Cultivation, hectares	10, 309	10, 561
Value, pesos	1, 974, 100	1, 937, 820
Cacao:		
Cultivation, hectares	1, 555	1, 588
Production, kilograms	807, 290	888, 470
Value, pesos	612, 680	644, 440
Coffee:		
Cultivation, hectares	1, 548	1, 557
Production, kilograms	930, 950	954, 020
Value, pesos	514, 770	519, 960
Peanuts:		
Cultivation, hectares	6, 366	6, 420
Production, kilograms	3, 780, 410	3, 814, 520
Value, pesos	366, 640	362, 260
Pilanuts:		
Cultivation, hectares	2, 065	2, 110
Production, kilograms	5, 276, 650	5, 188, 340
Value, pesos	309, 570	294, 950
Castor beans:		
Cultivation, hectares	691	722
Production, kilograms	158, 120	171, 970
Value, pesos	30, 500	35, 250
Cotton:		
Cultivation, hectares	2, 004	1, 925
Production of fiber, kilograms	498, 600	479, 910
Value, pesos	82, 590	64, 600
Forage grass:		
Cultivation, hectares	2, 572	2, 736
Production, kilograms	9, 566, 270	9, 903, 410
Value, pesos	298, 550	341, 600
Lumbang:		
Cultivation, hectares	1, 232	1, 230
Production of nuts, kilograms	2, 035, 850	2, 009, 810
Value, pesos	309, 070	311, 560
Subtotal for domestic consumption:		
Cultivation, hectares	3, 011, 527	2, 913, 902
Value, pesos	177, 273, 560	182, 163, 940
Total for principal crops:		
Cultivation, hectares	4, 532, 544	4, 418, 392
Value, pesos	499, 395, 110	417, 133, 740

It will be seen that as between 1937 and 1938, there has been a decrease in the area planted to sugarcane and a moderate increase in areas planted to crops for domestic consumption. In several of the important crops the quantity produced was lower—sugarcane, abaca, palay. The total value of production in both sections improved, but by greater ratio in respect to crops for domestic consumption.

Mineral production.—The most important change during the past 10 years in Philippine production, in fact in Philippine economy as a whole, has been the rapid increase in mineral production. The major item has been gold, but there has been a diversification particularly

into chromite, copper, and iron ore. The following table shows the comparative production for 1937 and 1938:

TABLE 39.—*Mineral production in the Philippines, 1937 and 1938*¹

Mineral	Calendar year 1937	Calendar year 1938
MAINLY FOR EXPORT		
Gold, fine ounces.....	716, 967	897, 088
Value, pesos.....	49, 581, 430	62, 630, 306
Silver, fine ounces.....	719, 771	1, 175, 192
Value, pesos.....	1, 094, 035	1, 487, 155
Copper concentrates, pounds ²	4, 492, 687	7, 777, 254
Value, pesos.....	577, 709	1, 367, 099
Copper ore, metric tons ³	6, 850	18, 172
Value, pesos.....	143, 244	293, 524
Chromite, metric tons.....	76, 416	74, 179
Value, pesos.....	1, 486, 569	1, 542, 197
Iron ore, metric tons.....	692, 637	905, 375
Value, pesos.....	2, 412, 299	4, 050, 046
Lead ore, metric tons.....	23	262
Value, pesos.....	2, 082	60, 608
Manganese ore, metric tons.....	5, 700	53, 036
Value, pesos.....	84, 680	1, 023, 812
Platinum, troy ounces.....		7
Value, pesos.....		302
Zinc ore, metric tons.....		565
Value, pesos.....		53, 106
Subtotal, for export, pesos.....	55, 382, 048	72, 508, 155
MAINLY FOR DOMESTIC CONSUMPTION		
Cement, barrels.....	879, 380	979, 228
Value, pesos.....	4, 258, 000	4, 315, 884
Clay, pesos.....	333, 077	428, 012
Lime, metric tons.....	15, 611	25, 037
Value, pesos.....	171, 309	515, 101
Sand, gravel, and crushed rock, cubic meters.....	2, 404, 673	2, 754, 058
Value, pesos.....	1, 941, 673	3, 008, 004
Building stone, cubic meters.....	134, 541	179, 080
Value, pesos.....	202, 411	272, 089
Rock asphalt, metric tons.....	1, 602	4, 291
Value, pesos.....	17, 325	34, 092
Cast iron, pairs.....	71, 922	78, 796
Value, pesos.....	60, 244	79, 049
Coal, metric tons.....	21, 611	41, 438
Value, pesos.....	157, 360	368, 410
Mineral water, bottles.....	9, 631, 211	8, 487, 625
Value, pesos.....	399, 874	393, 759
Salt, metric tons.....	48, 904	22, 923
Value, pesos.....	467, 129	603, 497
Other, pesos ⁴	13, 712	22, 498
Subtotal, for domestic consumption, pesos.....	8, 022, 114	10, 040, 405
Total, for export and for domestic consumption, pesos.....	63, 404, 162	82, 548, 560

¹ Data from *Bulletin of Philippine Statistics*, vol. 5, Nos. 1-2; vol. 6, No. 3, except as otherwise indicated.

² Data from *Philippine Mining Year Book for 1940*, p. 176-B.

³ Data from *Thirty-fifth Annual Report*, Collector of Internal Revenue, p. 82.

⁴ Includes guano, phosphate rock, limestone, marble, silica, gypsum, asbestos, and sulfur.

It will be noted that the total value of mineral production at ₱82,548,560 represented an increase of 30 percent over 1937. In gold the increase was over 25 percent; in iron ore, over 65 percent; and copper more than doubled. Manganese production was tenfold that for 1937.

Petroleum exploration.—The Commonwealth President early in 1938 arranged with the Standard-Vacuum Oil Co. for exploration and development of oil fields in the Philippine Islands, subject to an enabling act to be passed by the National Assembly. The position of the Commonwealth administration is best indicated in President

Quezon's message to the National Assembly on February 25, 1938, reading as follows:

Gentlemen of the National Assembly:

Petroleum is universally recognized to be among the most essential materials for modern industry and national security. Coal was long looked upon as the "mainspring of civilization" but with present emphasis on speed and efficiency, petroleum has come to be preferred. In the Philippines our geological surveys are not yet sufficiently complete to permit a sure answer as to what reserves of either may be counted on and it is a matter of the utmost importance to determine this as soon and as accurately as possible.

There are many indications of the presence here of petroleum but no certainty that it exists in amounts of national or commercial importance. Geologists tell us that the Islands lie within a great belt of petroleum bearing formations which all but circle the Pacific but experience shows that within even this belt of favorable rocks, productive fields are the exception rather than the rule, and are limited in area. It has required expenditure of many millions of pesos through a half century of time to find those now producing. A highly skillful technic of oil finding has been developed but it remains true today as it was in 1859 when the first productive well in Pennsylvania was brought in, that only by drilling is it possible to be certain of finding oil in commercial quantities. Modern oil wells are expensive. In the Philippines only one really deep test has been made. This well runs down almost a mile. It was financed and drilled by an experienced company with a well-trained staff. With preliminary surveys and two shallower holes, one 1,200, and the other 3,750 feet deep, it cost approximately ₱2,500,000 and the company said: "The failure to find oil at Bondoc does not prove that there is no oil in the Islands; it means there is none in the area prospected."

No major effort has been made since to find oil in the Islands and the only attempt to do so, operating under existing laws (Act No. 2932), resulted in such a stock selling scandal that in 1935, most of the outstanding leases were canceled and granting of others has been held up pending investigation and determination of a new policy. Whether the existing law be perfect or imperfect the fact remains that it has been on the statute books since 1920 and not one commercial oil field has been brought in. Meanwhile the world has faced more than one period of threatened shortage, millions have been spent in various parts of the world in looking for oil, and a number of the great oil fields of the world have been found; but none of this money has been spent in the Philippines, no oil field has been found here and we are as far as ever from knowing if there are fields of commercial importance in the Islands—fields upon which the nation may rely in time of need.

To remedy this deplorable condition two steps are being taken. The Department of Agriculture and Commerce, acting on expert advice, has redrafted the regulations governing petroleum exploration and drilling leases and submitted them to the Council of State for approval, in an attempt to make the present law workable. This should open the way to local groups which have neither the capital nor experience to handle larger areas than contemplated by the present law, but who might nonetheless wish to take the chances of success or failure involved in actual drilling of oil wells.

It is believed, however, that something much more drastic is necessary to break the block in the way of rigorous search for oil. The present laws, even under most favorable regulation and interpretation, effectually exclude those large companies which have the experience, the capital, and the motive to face the long and expensive campaign necessary to develop an oil field. There is no such Filipino company in existence and because the constitution forbids alien ownership, "exploration, development, or utilization of such natural resources, only American companies are now eligible. The alternative, the use of public money for this purpose, is not permissible because of the great risks and large amount involved. It should be frankly admitted that, however desirable, not to say necessary, it may be to find oil fields here if any be present, such an operation is necessarily highly speculative and public money raised by taxation should not be used for speculation.

With these alternatives in view, and after long and patient negotiations between experts and lawyers representing both parties, a plan has been evolved under which the Socony Vacuum Oil Co. will undertake the work in cooperation

with and acting for the Government. An agreement as to terms has been prepared and execution thereof is made dependent upon the passage of the necessary enabling act. The Standard-Vacuum Oil Co. is an American corporation now operating as a marketing concern in the Philippines and already paying considerable sums annually in the form of taxes to the support of our Government. It is owned exclusively by two shareholders, the Standard Oil Co. of New Jersey and the Socony Vacuum Oil Co., of New York. The resources, experience, and capacity of these companies are beyond exception.

This group is one of the few, among those of experience in this business, which has shown an interest in finding oil here and has spent considerable sums in studies and field examinations to that purpose. When it had been determined that under existing laws no company could hold or operate a sufficient number of leases widely scattered over the Islands to insure enough trials to make a petroleum development project attractive, the company approached the government to inquire whether it was prepared to recommend to the National Assembly a repeal or change in these laws.

As a result of consideration of many plans, the one herewith transmitted to that august body has been worked out. It is, therefore, recommended that the necessary enabling legislation be passed in order that the agreement may be accepted and put into effect without further delay. Since there is no reason for dealing with this company in a way different from that with others who are equally able and willing to undertake the same obligations, it may be preferable to make the enabling act broad enough to permit the executive, if he finds it in the nation's interest to do so, to conclude similar agreements with any other Philippine or American company or a combination of the two, which may be able and willing to make similar guarantees of performance.

The agreement as to terms provided for a 25-year contract, renewable for the same period, under which the Standard-Vacuum Oil Co. would be given rights to search for oil fields, subject to rights previously granted to other firms. All expenses were to be borne by the contracting firm. The company was to have 87½ percent of oil produced until production should exceed 2 million barrels a year, after which the company's share was to be cut to 80 percent. The 12½ to 20 percent of production was to be retained by the government as royalty. The company was required to establish a refinery in the event oil should be found.

Act 351, approved August 22, 1938, authorized the Commonwealth President to call for bids and to award contracts for the exploration, exploitation, and development of petroleum and natural gas deposits in private and public lands.

Negotiations continued after the passage of the enabling act until near the end of the year when President Quezon stated that the agreement with the Standard-Vacuum Oil interests would be discontinued and that the government would designate the National Development Co. to undertake the task of exploration. The Government then proceeded to bring in a number of geologists and other technicians and proceeded with exploratory work in cooperation with the National Development Co. and with the Philippine Bureau of Mines. No report of progress is yet available.

Forest production.—The Bureau of Forestry reported the 1938 timber cut, including but not duplicating logs and sawed lumber, at 1,015 million board feet as compared with 1,093 million board feet in 1937. The value was placed at ₱35,549,376 as compared with ₱37,103,933. The decline was attributed entirely to losses in overseas markets and, in fact, domestic utilization was estimated to have increased considerably over recent years.

Licenses, mills, and investment figures for 1937 and 1938 follow:

	Units		Capital invested	
	1937	1938	1937	1938
Ordinary and gratuitous licensees.....	7,936	5,625	<i>Pesos</i> 18,967,072	<i>Pesos</i> 10,000,000
Sawmills.....	124	141	30,952,300 {	30,366,000 {
Machine loggers.....	7	7		
Total.....	8,067	5,773	49,919,372	40,366,000

Of the 148 sawmills and power-logging operations reported for 1938, 36 capitalized at ₱12,710,400 were American-owned; 88 capitalized at ₱9,135,700 were Filipino-owned and the balance were scattered among different nationalities.

Minor forest products in 1938 included:

Firewood, cubic meters.....	177,253	Elemi gum, kilograms.....	11,042
Tanbark, kilograms.....	1,551,793	Rattan, kilograms.....	4,843,424
Cutch, kilograms.....	8,826,168	Lumbang kernels, kilograms.....	466,938
Copal gum, kilograms.....	747,329	Lumbang nuts, kilograms.....	81,597

The economically undesirable trend in exports toward timber rather than sawed lumber continued in 1938 as shown in the following tabulation:

Year	Timber		Sawed lumber	
	Cubic meters	Percent of total	Cubic meters	Percent of total
1935.....	231,061	68	107,388	32
1936.....	332,748	72	129,660	28
1937.....	466,235	78	127,385	22
1938.....	276,340	73	102,355	27

Sales tax.—Collections from the sales tax totaled ₱14,081,552.83 for 1938 as compared with ₱13,908,408.41 for the preceding year, an increase of only 1 percent. Taken as an indication of volume of sales transactions, these figures measured operations of merchants and manufacturers, peddlers of merchandise, retail leaf tobacco dealers, wholesale and retail dealers in native alcoholic beverages at ₱967,364,800 during 1938 against ₱955,980,600 for the year 1937. Plans were under way early in 1939 to rewrite the internal revenue code with the ends in view of: (a) increasing revenue; and (b) lightening the burden on raw materials required by local manufacturers and processors. The revision was enacted as Act 466, approved June 15, 1939, to be effective July 1, 1939.

Merchants' and manufacturers' licenses.—The collector of internal revenue reported license collections from 98,048 merchants and manufacturers in 1938, a slight decrease in the number reported in 1937 at 98,290.

Construction.—On a basis of permits issued, new private construction in the city of Manila totaled ₱9,289,940 for 1938, an increase of 23 percent over the 1937 figure of ₱7,530,690.

Real-estate transfers.—Manila real-estate transactions totaled ₱19,522,500 in 1938, a decline of 19 percent compared with the preceding year, but higher than any figure for other previous years since 1920.

Electric current output.—Electricity output by the Manila Electric Co. was estimated at 15,000,000 kilowatt hours during 1938, an increase of 9 percent over the preceding year.

Conclusions and Recommendations Respecting the General Economy

General summary of 1938 conditions.—In general, calendar year 1938 indicated a recession in the economic situation as compared with 1937. It may appear that the latter year was a "post-depression peak" and that 1938 stands as a fairly normal year. Certainly the total trade exceeded that of any other year except 1920, 1928, 1929, and 1937. As noted in my last report a perceptible slackening of activity and weakening of prices appeared toward the end of 1937. The 1938 trend of prices of staple exports was still lower. The effect of lower price levels was evident in the excess of value of imports over value of exports, exclusive of gold—1938 was the first time since 1921 that this excess occurred.

As may be discovered in the section "Public finance and banking," exclusive of the coconut oil excise tax funds, government revenue from taxation declined by 8 percent during 1938, while disbursements increased by 9 percent and exceeded income, thus reversing the trend of 1936 and 1937. Heavy appropriations and considerable disbursement of coconut oil excise tax funds were made in 1938 and it may have been largely this artificial income which sustained the relatively heavy imports. Circulation increased by 7 percent over 1937. Total bank resources, liquidity ratios, and bank earnings increased slightly. The decreased value in agricultural and forest production was more than offset by an exceptional increase in mineral production, principally gold.

While in general there were no troublesome commodity surpluses, towards the end of the year there appeared a threat of moderate overproduction of copra. Most urban indices showed improvement over the previous year and there was little unemployment which could be attributed to purely economic causes.

United States-Philippine economic policies.—The 30 years of continuous and increasing prosperity enjoyed by the Philippines since 1909 has been ascribed almost exclusively to free trade relations with the United States. It is true that during this period both exports and imports have increased fourfold; that the population increased rapidly; that large areas of wild but fertile public domain were brought under cultivation; that labor became vitalized by higher wages and higher living standards; that funds of previously hoarded indigenous capital and new capital both from within and without became available at reasonable rates of interest and were invested in extractive industry and public utilities; and that increasing revenue from moderate tax rates were spent for extension of public works and for educational and other welfare services of government.

Admitting the advancement, nevertheless it is quite superficial to assign it entirely to free trade. It would have been difficult to have

obtained steady profit from free trade, or, having obtained it, to have converted it into dividend yielding local investments had there not been other factors of stimulation and protection:

1. During the entire period the Philippines has been under the diplomatic and military protection of the United States towards which it has made no monetary contribution.¹⁴

2. The United States has controlled and guarded Philippine currency and has sustained its stable position in the world's money markets by linking it with the dollar. Similarly, but with the exception of 3 years (1918-21) of careless policy, the United States has been the faithful custodian of Philippine currency reserves.

3. For 35 years the cheap money market of the United States absorbed practically all public debt issues of the Philippines and by law enforced their redemption through orderly sinking funds.

4. United States laws and administrative officers throughout the period previous to the Commonwealth rigorously held government expenditures within revenues derived wholly from local sources.¹⁵

Since the establishment of the Commonwealth, some of these whole-some conditions have been qualified. The United States Government has continued to protect the Islands and has maintained control over the currency and reserves. On at least two occasions responsible Commonwealth authorities have discussed "advisability" of depreciation of the currency. These suggestions were not formulated into legislative proposals and were promptly discountenanced by the High Commissioner and the Commonwealth President. A proposal to revert a part of the reserves to general funds was enacted as bill No. 3943, which, not receiving the required approval of the President of the United States, was subsequently withdrawn. An attempt to localize reserves, bill 1047, was passed as Act 458, but was interpreted by the High Commissioner as requiring approval by the President of the United States, and was thereupon withdrawn. Although no impairment to either the currency or the reserves has occurred, the business community has observed the incidents related above and it has interpreted them as foreshadowing a trend towards deterioration of the financial system, once the control now exercised by the United States may be relinquished.

In recent years the Commonwealth and its instrumentalities have created a limited internal debt of ₱6,542,300. But, the bulk of these issues is in the portfolios of government funds rather than in private hands. The United States Government does not guarantee public issues of post-Commonwealth date and while no effort has been made to float bonds in the United States or foreign markets, it is well realized that if this were done it would involve political and commercial commitments and the issues would only be sold at high rates and lower yields.

Beginning 1935, the appropriation to the Philippines of the coconut oil excise tax fund—an impermanent windfall revenue collected abroad—has been in amounts ranging from 33 to 49 percent of annual revenues of the central government from local sources. The availability of these funds has induced a careless fiscal policy as shown by

¹⁴ Beginning in 1936 the Commonwealth has disbursed an average of less than \$10,000,000 annually for citizen training which, designed as the nucleus of a post-independence army, has little or no effective relation to contemporaneous defense.

¹⁵ The only United States appropriations to civil government prior to the Commonwealth known to this office were the 1903 congressional relief appropriation of \$3,000,000, and the return of internal revenue duties collected in the United States on Philippine tobacco and spirits averaging less than \$500,000 annually.

the declining cash position of the general fund proper. When the disproportionate windfall revenue ceases (not later than the date of independence) business quarters anticipate a period of disastrous deflation coincident with cessation of free trade, flight of outside capital, and an unmeasurable but radical decline in revenue from local sources.

Far from seeking to abate the present inflationary trend—higher wages, higher costs of production, and higher costs of government—the Commonwealth government has encouraged it. If the Philippines were to remain under the American flag, the movement towards higher wages could be appreciated as an enlightened social reform. But with independence dated in 1946, the movement will serve to unfit the Philippines for competition in the marketing of tropical agricultural crops.

Amendment of the Tydings-McDuffie Act in line with the recommendations of the Joint Preparatory Committee on Philippine Affairs for the period 1941–46 should compel a significant but fractional economic adjustment; but such legislation will scarcely serve to ameliorate the inflationary trend or to prevent disastrous deflation in 1946.

The uncertainty and artificiality which still feature Philippine economy and finance together with the admitted impossibility of national defense and the troublesome international situation are being daily more and more realized by Filipinos and Americans and foreigners resident in the Philippines. Doubt is growing as to the desirability of either economic or political independence.

In view of the growing general realization in the Philippines of the serious economic, financial, and international consequences which may result from independence, it is recommended that both the Government of the United States and that of the Commonwealth support and carry through a reexamination of every phase of the question.

During the period of my administration as High Commissioner, I was repeatedly surprised by the lack of accurate knowledge of Philippine conditions and by misstatements in reference to its trade and economy which had gained currency in the United States. I attempted in some degree to clarify this unfortunate situation in two addresses. The first was my address before the Chicago Economic Club, March 16, 1938, and the second, a message to the National Foreign Trade Council held at New York in November of the same year. These addresses are included as appendix A and appendix I, respectively.

X. Events of Popular Interest

Occupation Day observance.—August 13, 1938, the fortieth anniversary of the American occupation of the city of Manila, was observed with unusual enthusiasm. The principal speech was delivered by President Quezon who expressed his gratitude to the United States in these words: "The main purpose of this gathering is not to extol the actual incidents or participants in the conflict of that eventful day but to express the boundless gratitude of the Filipino people to the United States for the measureless benefits she has bestowed during the 4 decades that have passed since then. * * *"

At the conclusion of his address President Quezon presented flags of the United States and the Commonwealth to be given to the President.

Tragic loss of the Hawaii clipper.—The Hawaii clipper, Pan-American airplane en route from the United States and due to reach Manila on July 29, failed to arrive. After a most intensive search for many days by Army planes, every available naval vessel, four amphibian planes and six long-range bombers, the plane was given up as lost. The plane must have been within 600 miles east of Samar and the time shortly after noon on July 29, judging from the last radio report received from the airplane at 11 minutes past noon giving a position 600 miles east of Samar. The cause of the disaster was not determined.

Colonization in Mindanao by Jewish refugees.—In connection with the colonization of Mindanao which is being undertaken by the Commonwealth, some of the prominent Jewish residents of the Philippines approached President Quezon with a recommendation that a limited number of worthy and adaptable Jewish refugees be admitted to take part in the colonization. President Quezon, after a number of conferences with me, attended by Mr. Philip Frieder and others, extended an invitation for 10,000 refugees, to be selected by the organization in the United States having charge of the relief of Jewish refugees under the auspices of the President's Advisory Committee on Political Refugees. These refugees are to be selected for their aptitude for agriculture, to take part in the colonization of Mindanao or any other suitable part of the Philippines.

The Commonwealth, among other conditions, stipulates that the refugees shall take out naturalization papers as early as possible, and that until they become Filipino citizens, they shall reside in the land reserved for them. Also, that the execution of the plan shall be subject to the immigration laws now in force, or which may hereafter be passed by the National Assembly.

A scientific mission, under the auspices of the President's Advisory Committee on Political Refugees arrived during the first half of April 1939, to study the possibilities of refugee colonization in Mindanao and any other places in the Islands that may be suitable. I conferred with the mission on different occasions, and have endeavored to facilitate and expedite their studies. The mission completed its investigation of the Island of Polillo in the early part of May, immediately after which they proceeded to the Island of Mindanao in the hope of completing that survey by the end of June.

Respectfully submitted.

PAUL V. McNUTT,
*United States High Commissioner
to the Philippine Islands.*

THE PRESIDENT AND CONGRESS OF THE UNITED STATES,
Washington, D. C.

APPENDIX A

Address Before Chicago Economic Club

By PAUL V. McNUTT on March 16, 1938

MR. PRESIDENT AND MEMBERS OF THE CHICAGO ECONOMIC CLUB: History is a strange thing; its events pass with the seeming finality of a gunshot; but the consequences of each event continue so long as the world turns and man lives. For nearly a year I have been serving you and your President as your representative in the far-off Philippines. These 7,000 of the world's most beautiful and fertile islands do not often intrude upon your attention—not often enough. One writer has it, "When Dewey took Manila Bay in 1898, you could almost hear the snap of geographies opening all over the United States." I hope you will open them again and put your finger on the bold little archipelago which juts out at the southeast corner of Asia. And it's not so little. Its arable land is probably greater than that of Japan proper and its total area is about equal to that of Great Britain.

The 7,000 islands are inhabited by 15,000,000 people who owe allegiance to our Nation, salute our flag, most of whom speak our language, sing our "Star-Spangled Banner," and what is most important, worship our Christian God. And their number is growing rapidly. Population has twice doubled since they came under our flag nearly 40 years ago.

We took over the islands through no real choice of our own. Their acquisition was the consequence of a war waged with Spain on another issue. Perhaps it was not wise; perhaps it was not altogether fortunate for us, but it is a fact of history and we cannot shun its consequences. When the Treaty of Paris confirmed our proprietorship, we undertook a very noble experiment—one which was new to the world of colonies and empires.

Spain has accomplished little else than the Christianization of the great majority of the people: Nothing creditable in the way of schools; no marked improvement of health and sanitation; no improvement in the people's standard of living; nothing of what we call political liberty; no substantial participation in government. She had ruled harshly amid big and little rebellions and without the affection or understanding of her wards. Our policy was the reverse. The bugles of war had not quieted and the acrid smoke of gunpowder still clouded the rice fields when, wonder of colonial wonders, corporals and sergeants shared their rations with famished natives and opened schools for the thought-hungry youth of the Philippines.

One Army transport, the unforgettable *Thomas*, brought not guns and soldiers but 600 American school teachers. Then followed doctors and sanitarians, engineers, judges, civil servants, and devoted Com-

missioners and Governors—a line of gracious, humanitarian, altruistic Americans who saw the Philippine problem solely as one of self-sacrificing duty in perfecting a harmony of welfare between the motherland and the colony. As I read over the annals of American occupation, I feel proud of that list of distant proconsuls who so honorably acquitted their tasks in so distant an outpost, and I feel a humility in joining their company.

But my pride goes deeper than the Governors. No community has ever harbored a more attractive group of Americans. Ex-soldiers and officers who stayed on and others who followed became honest merchants, founders of new industries, miners, lumbermen—a goodly concourse who believed in the Filipino and paid him higher wages than he had ever previously earned; who believed in the Philippines and gave it their last ounce of thought and Yankee ingenuity. There was not an exploiter or enslaver among them. They worked hard, plowed back their profits, held their counsel, and assisted mightily to lay the foundations of American culture in the Orient—Christianity and American culture.

Before entering into a consideration of trade relations between the United States and the Philippines and of recent undertakings to change them, it may prove profitable to describe a few of the fundamental features of Philippine economy with particular reference to external trade.

1. *Nonindustrial characteristics of Philippine economy.*—From the eighth century, when the islands first appear in written history, to the present time the Philippines has been both an agricultural producer and an overseas trader. During this long span of time the leading fact in Philippine external economy has been the exchange of agricultural, forest, and mineral products for foreign manufactured wares. This characteristic began and has continued because of fundamental conditions of land, population, and location—rich soil; abundant forests; heavy mineralization; sparse population; and proximity to the heavily populated, cheap-labor communities of the Orient. In respect to urban industries the Philippines has continued to be what may be termed economically a “low-pressure spot in a high-pressure area.” Primitive handicrafts have existed from the dawn of Philippine history, and recently there has been some advancement in factory production for domestic consumption. Further development in this direction may be anticipated. But industrialization for export, beyond first processing of agricultural products, in any substantial degree, is not in prospect.

The forcing of industrialization for export would require an economic revolution of proportions. From a first, but serious, view of the situation I am led to the conclusion that genuine industrialization even within three generations is impossible unless the doors be opened wide to oriental immigration, abandoning all ambition to preserve the racial type and culture, and, unless the nationalistic land, labor, and company laws be amended, admitting alien capital in amounts manyfold that of the present native funds.

From my conversations with the leaders among the people, I do not think the Filipinos are willing to do these things. They rightly wish for a more indigenous program even though it may take much more time for accomplishment and even though large-scale industrialization never be reached. The whole technique of economy and the

proclivities of the mass of the people have been habituated to extractive production and cannot be easily nor quickly altered.

2. *Agricultural problems.*—In the realm of agricultural production for export four difficulties have arisen: First, the principal Philippine export crops—sugar, hemp, tobacco, and copra—which were world scarcities in the eighteenth and nineteenth centuries, and, indeed were just becoming plentiful in the years immediately before the World War, are today overproduced or are beset with the competition of acceptable substitutes. As a consequence their real prices; that is, the quantity of other goods for which they can be traded, except as pegged by the artificialities of tariffs, quotas, cartels, etc., are generally on a downward trend. The opening of Africa, the development of South and Central America, and the increased facility and speed of overseas transport, among other factors, are responsible for this change. But, this is a fact and a reality which cannot be shunned and further resort to artificial measures is a postponement of the problem, not its solution. This problem is aggravated by the disinclination of landlords, capitalists, and laborers now long accustomed to artificial returns to accept the lower rents, dividends, and wages which must follow trading at world prices and in unprotected markets.

A second difficulty presents itself in the overweight of one of the crops—sugar. From 10 percent of the total export value in 1903, it has risen to 40 percent in 1936. The phenomenal increase has been due solely to artificialities which have made it the most profitable production in the Philippines. So strongly has it grown that its sudden extinction by removal of its artificial support may rightly be viewed as an economic disaster which would cripple the Philippines for a decade or more. For this reason, its gradual curtailment is a necessity in economic reform.

A third problem arises from the backward condition of the technique of agriculture in the Philippines. For many years the Filipinos have been marking time in the scientific advancement of agriculture. The introduction, acclimatization, and breeding of better varieties, the testing of soils, the control of pests, and the general conduct of experimentation and demonstration have been neglected, except in sugar, where it has advanced principally by private effort. Of programs and organizations there has been a surfeit, but of men and money there has been a continuing deficit.

The fourth problem is that of the land. Half the tillable area of the Philippines is unoccupied, and even less is under cultivation. Yet in certain coastal regions the density of population to cultivated square mile—and this is the only density which counts in an agricultural country—reaches 1,000, a specific density greater than that of many tropical countries and greater than that of the crowded nations of Europe where developed urban industries afford employment to the bulk of the population. The extremely uneven and uneconomic distribution of the population in relation to land is not only a bar to improved technique in agriculture but a source of agrarian unrest.

3. *Alien character of Philippine economy.*—Another outstanding feature of Philippine economy is the want of native enterprise in commercial and financial establishments. Practically all overseas trade is carried in American and foreign bottoms. Insurance, marine and other, is largely written by non-Philippine companies. The import and export business, except for a part of the sugar and cordage, is

carried on mainly by American and foreign traders. The retail trade is 90 percent or more in non-Filipino hands. Land transportation, except the government-owned railroad, is largely American—even the railroad is heavily indebted abroad. The bulk of domestic manufacture is capitalized and managed by Americans and foreigners. The inland telephone and all means of overseas rapid communication are non-Filipino. The great bulk of the capital in the productive mines is from the outside. The largest fraction of the lumber and logging industry is American and Japanese. The commercial fishing industry is almost wholly Japanese. With the exception of the government-owned Philippine National Bank, the financial houses are American or foreign controlled. It must be held in mind that the nationalities which hold control of almost every factor in the movable economy of the Philippines are social and political minorities. These economically powerful non-Filipino groups are accountable for about three-fourths of the tax income of the central government. They have no effective vote or representation in government, no direct control over the policies of government under which they must do business.

The foregoing situation is not presented as an evil to be speedily remedied—certainly not one to be overthrown by nationalistic laws approaching confiscation.

4. *Oriental immigration.*—Attention is finally invited to an economic problem which is also of wide social import—that of oriental immigration. The Philippines, with broad unoccupied lands and great potential opportunities for wealth-getting, is within a short distance of the more congested and non-Christian half of the world's population. It is neighbor to several countries actively seeking an outlet for teeming millions. The United States and other countries bordering the Pacific basin have kept back oriental immigration by virtue of sheer power and at the cost of some good will of the pro-immigrant nations. Similarly, both Spain and the United States by their power and established prestige have saved the Philippines from immigration which would otherwise have cost the Filipinos their racial integrity and Christian culture.

Brief Outline of United States-Philippine Islands Trade Relations

Whatever the inherent problems and general character of Philippine economy, it will be beneficial to review briefly the history of American trade policy in the Philippines.

1. *Independent trade economy: 1898-1908.*—Stipulations in the Treaty of Paris guaranteed to Spanish trade for a period of 10 years any commercial advantages which might be established in favor of American trade. This circumstance effectively prevented adoption of free trade or extensive preferentials either way, the inclusion of the Philippines in the United States customs area, or any other form of artificial colonial economy. The most that was done was to allow all Philippine exports to the United States a rebate of 25 percent of the United States customs duties. The period may be characterized as one of "*independent trade economy.*"

Progress under the policy was slow but sure. Philippine overseas trade doubled. Nearly twice as much goods were marketed in foreign countries as in the United States, and over five times as much goods were purchased from foreign sources as from the United States. The

average visible trade balance was zero, imports almost exactly equaling exports.

2. *Complementary trade economy: 1909-12.*—With expiration of the equal advantage clause for Spain in the Treaty of Paris, Philippine producers and exporters and American importers and processors of Philippine-produced exports pressed for and were favored with a limited reciprocal free-trade arrangement between the United States and the Philippine Islands simultaneously with congressional acts increasing tariffs against foreign goods in both areas. The design, if such there was, was to form an economic couple in which the United States would find a protected market for its manufactured goods and the Philippines a protected market for its agricultural exports. Limitations were placed on Philippine shipments of centrifugal sugar and tobacco products to the United States. The limitations of sugar and tobacco products were comfortable in that the quantities admitted to the United States free of duty were greater than the highest previous annual shipments to the United States of these commodities and at the same time were much lower than the point of competition with continental productions. The period was one of complementary trade economy, and while there was incentive to dependence on the United States, the development of any significant foreseeable competition was precluded.

Philippine export of coconut oil and cordage had not developed at the time. It is presumable that had the complementary trade policy been continued and modified from time to time to satisfy new commodities and new conditions, it would have become a very tolerable and healthy one involving no serious compromise of the political situation while encouraging Philippine production of numerous tropical materials noncompetitive with continental American productions (such as rubber, lumbard, quinine, ginger, derris, etc.). The policy of complementary trade economy was unfortunately discarded before it was fairly under way.

Progress during the period was highly satisfactory. Total trade values doubled. Over 40 percent of Philippine exports was still marketed outside the United States. Whereas the previous period had shown an exact balance of visible trade, the new policy resulted in an average annual net gain to the Philippines of ₱10,000,000, approximately half of which was due to favorable trade with Europe and the Orient, the other half to favorable trade with continental America.

3. *Competitive trade economy: 1913-34.*—The Underwood Tariff Act of 1913 provided for practically unlimited reciprocal free trade between the Philippines and the United States. Under the further encouragement of war demand, Philippine agriculture was not slow to seize the opportunity not only to expand production and export in sugars and tobacco products, but also to establish large export industries in coconut oil and cordage. Subsequent increases in United States tariffs against foreign sugars, tobacco, vegetable oils, and cordage afforded equal or greater protection to Philippine than to continental United States production of those commodities.

The more than 20 years of unlimited free trade forced Philippine economy into a position where it became at the same time almost completely dependent on free entry to protected United States markets and increasingly competitive with continental production.

During the period the visible balance of trade with foreign countries was generally increasingly negative while the visible balance with the United States was generally increasingly favorable. For many years the Philippine's gain in trade with the United States has been sufficient to wipe out the substantial losses in foreign trade and provide a surplus from which to derive social and economic advancement and a large share of government income.

The confusion and trade abnormalities of the war and post-war periods, immediately following the institution of this policy, covered its errors and prevented any demand for its correction until after 1921. However, the over-all result from 1914 to 1934 was that Philippine trade increased over three times. But, the dependence of the Philippines upon a protected and artificial market in the United States for commodities considered competitive with continental productions increased year by year, until 1932 these competitive products comprised 85 percent of all Philippine exports. The degree of Philippine economic dependence on the United States free and protected market is shown by the fact that the value of Philippine exports to all countries, totaling ₱191,000,000 in 1932, taken as a typical year, was divided as follows:

	<i>Pesos</i>
(a) Value of exports to foreign countries-----	25,000,000
(b) Intrinsic or world price value of exports to the United States which were competitive with United States production (centrifugal and refined sugar, coconut oil, cordage, and tobacco products)-----	33,000,000
(c) Intrinsic or world price value of exports to the United States which were noncompetitive with United States production----	15,000,000
(d) Subtotal—"Natural" or intrinsic value of Philippine export trade-----	73,000,000
(e) Value added by United States tariff to exports which were competitive with United States production-----	109,000,000
(f) Value added by United States tariff to exports to the United States which were noncompetitive with United States production-----	9,000,000
(g) Subtotal—"Artificial" or added value of Philippine export trade-----	118,000,000
(h) Total value of Philippine export trade-----	191,000,000

The foregoing is a typical and illuminating table of Philippine economy duplicated nearly every year since 1920.

Political Development

At this point it is well to turn momentarily to the political policies followed during the same period. This side may also be roughly divided into three periods.

1. *Period of political preparation: 1898-1906.*—It is evident that at the instant of occupation of the Philippines the American political policy was to start with preparation of the native for self-government, to be followed by his gradual assumption of a share in the government. The essential steps before 1907 were: First, the retention of natives *in* and their admission *to* positions of limited discretion in the municipal and provincial governments; and secondly, to

provide for the election of municipal and provincial executives on a basis of relatively broad suffrage. It also became obvious during this period that the political philosophy of the Philippine government was to be democratic and that at least the intermediate form was to be more or less a copy of the tripower, representative republic of the United States.

2. *Period of native participation: 1907-15.*—The first political period closed and the second opened with the establishment of an elective assembly to take position as the lower house in a bicameral legislature of which the upper house continued in the executive authority known as the Philippine Commission. The period was marked by extensive Filipinization of municipal and provincial governments, the Filipinization of subordinate positions in the central government, and a very substantial Filipinization of discretionary positions in the central government.

3. *Period of partnership: 1916-35.*—The third period of political policy in the Philippines opened with the enactment of the Jones bill which divorced the legislative and executive powers, created a native Senate as the upper house of the Philippine Legislature, and set up a cabinet of native secretaries to replace the members of the Philippine Commission except the Governor General and the Vice Governor. The now fully constituted Philippine Legislature was conceded the right to initiate all legislation, and the Senate to confirm the appointments of the Governors General. The legislative power was qualified by the necessity of submitting to the President of the United States all bills affecting tariff, currency, immigration, and public lands; the right of the Governor General to select between the current appropriations of the legislature and those of the previous year; the right of the Governor General to veto legislation repassed by the legislature.

The period was marked by increasing Filipinization until, at the end of the period almost all executive positions except those reserved for Presidential appointment were Filipinized. It was further characterized by nearly complete Filipinization of the judiciary.

The Anomaly

The source of our present difficulty is patent when it is considered that in trade and political relationships diametrically opposite and incompatible policies were pursued.

Since 1913, American trade policy has forced the Philippine economic establishment into a position of complete dependence on the United States until today it is doubtful whether any other sizeable colony is as economically dependent on its metropolis. Beyond this, since that date no effort has been extended to check the growing competition of Philippine exports with continental American production.

But also, particularly since 1916, American political policy has looked toward political independence for the Philippines. Support for this aim now arises chiefly from those United States interests which feel or fear the economic competition of the Philippines.

It sums up thus: In economic policy America has bound the Philippines to her, while at the same time in political policy America has presumed to sever the Philippines from her.

The Tydings-McDuffie Act

Perhaps an attempt to solve the anomaly—of the type of remedy which cures or kills—were the Hare-Hawes-Cutting Independence Act and the Tydings-McDuffie Act.

1. *Circumstances surrounding passage of the Tydings-McDuffie Act.*—Beginning a few years after the passage of the Jones Act in 1916, the Philippine Legislature repeatedly requested the fixing of a date for independence. In advancing this policy, their Resident Commissioners and special missions were supported by two groups of Congressmen: First, by those who believed in the right of self-determination regardless of material consequences to those who sought sovereignty, to those who granted sovereignty, or to world peace. Secondly, by those who, apart from their convictions as to the right of self-determination, found their constituencies suffered a real or fancied competition from the free entry of Philippine goods or from unrestricted entry of Filipino labor. The support of these elements was but weakly opposed by those who believed that the economic provisions of the act would result disastrously for the Philippines or would wreck American policy in the Orient, or endanger world peace. The culmination of the campaign was reached with the repassage over the President's veto on January 10, 1938, of the Hare-Hawes-Cutting Act.

The Hare-Hawes-Cutting Act provided for political independence 10 years after its acceptance by the Philippine Legislature; it provided for a 10-year period of transition under an autonomous commonwealth under the sovereignty of the United States and with the United States retaining full control of foreign affairs, tariffs, immigration, currency, public debt, and public obligations, with the right to intervene to maintain the form of government of the Commonwealth; on the economic side it provided immediate quota limits on duty-free Philippine sugar, coconut oil, and cordage; and it provided for increases in duties on Philippine goods from 5 percent in 1941 to 25 percent in 1945 and 100 percent beginning at the moment of independence.

The Hare-Hawes-Cutting Act was written under the auspices of a special mission sent to Washington by the Philippine Legislature, but it was no sooner repassed than it became an economic and political issue in the Philippines. It was attacked on all sides by journalists, economists, and commercial interests. As required by its terms, it was submitted to the Ninth Philippine Legislature and was rejected by a large majority. The principal reason for rejection as expressed in the concurrent resolution was the economic provisions of the act.

Very soon thereafter, other emissaries of the Philippine Legislature went to Washington, and under their auspices the act was revived as the Tydings-McDuffie Act. This latter act, in its economic and administrative provisions and in all respects save in reference to military reservations is identical with the Hare-Hawes-Cutting Act. The Tydings-McDuffie Act was approved March 24, 1934. On May 1, 1934, it was almost unanimously accepted by the same Ninth Philippine Legislature which less than 7 months before had rejected the Hare-Hawes-Cutting Act. This sudden about-face of the Ninth Philippine Legislature has led observers to doubt whether either the action rejecting the Hare-Hawes-Cutting Act or the action accepting the Tydings-McDuffie Act were, in themselves, accurate reflections of the opinion of businessmen in the islands or of the mass of 15 million people who

in the end must lose or gain, as the case may be, by the accepted program.

2. *The President's statement.*—The surface explanation for the sudden change in the opinion of the Ninth Philippine Legislature* was reliance to an unwarranted degree on a statement made by the President on March 2, 1934, which reads, "I do not believe that other provisions of the original law need be changed at this time. Where imperfections or inequalities exist, I am confident that they can be corrected after proper hearing and in fairness to both peoples." That reliance in the President's statement was not misplaced is amply shown by action taken in subsequent laws in respect to Philippine sugar and cordage and by the President's openly expressed opposition to the coconut oil excise tax which was included in an omnibus revenue measure. But I have used the phrase "to an unwarranted degree" advisedly. All instructed persons are aware of the separation of powers in the United States Government and of the difficulty of one executive or one Congress to bind its successors. In the fact of both political and circumstantial realities and in all fairness to the President, I feel I should caution against stretched interpretations of his statements. I should advise that we have not the reasonable right to read from it a promise to do more than an executive can do, or to read from it a promise to extend an economic protectorate over an independent Philippines. The principal effort of the committee in so far as action is to be based on the President's statement; is to discover what "imperfections or inequalities exist," and if such are found, to propose what remedies may be applied during the life of the Tydings-McDuffie Act.

3. *Noncovenant character of the act.*—The Tydings-McDuffie Act is not a covenant; it is a plain statute of the Congress. As such it was offered and accepted. As such it is always amenable to amendment, enlargement—even to repeal. Some effort has been made to present it as an "inviolable treaty." The "treaty" character idea becomes particularly unimpressive when those in the Philippines request that the act be amended to increase its trade favors in their direction, to curtail American prerogatives thereunder, and to realine its political provisions, while at the same time complaining that amendments to adjust it in favor of American conditions and policies constitute treaty breaking.

In this connection, for example, may be mentioned the idea of shortening the Commonwealth period. Fair-minded persons will be constrained to point out that if the political element was promised independence in 1946, just as surely the business elements were promised 10 years within which to adjust themselves to an event which under any plan will require their reorientation.

4. *Criticism of the act.*—While accepting and working honestly within the premises of the Tydings-McDuffie Act, everyone has the right—perhaps the duty—in a democratic regime to study and criticize the act itself.

The first and most general criticism against the act is that it is mainly a product of opportunism and is not based on attention to fundamentals of the problem. It originated in a clever but dangerous trade-off. On one side the representatives of American groups smarting under the competition, whether real or assumed, from Philippine exports, would have been content with correction of the economic policy without reference to the political. On the other side, Philippine political entities.

fretting under what little remained of colonialism, wished fulfillment of the political policy without change of the economic. Each made use of the other: The former conceded political points; the latter conceded economic points. In this bargain the American group shunned responsibility for their country's fair acquittal of colonial obligation, and the Philippine elements abandoned consideration of the material welfare of their 15 million people.

A serious danger of the act rests in its inelasticity in the face of almost certain vital but unpredictable changes in the islands, the Orient, America, and the world during its life. There is provided no smooth road of retreat, and once its formulas are set in motion, legalism may move it to conclusion regardless of how much it may run afoul new conditions and concepts.

The act purports to reform both the economic and the political problem of the Philippines at the same time. This is too heavy a task, and one which presents an unfortunate conjuncture in which the violent reactions of one formula against the other will threaten disaster to the whole. Only an experienced and sound economy can furnish the revenues required by a newly established nation. Whereas, theoretically, independence might reasonably follow success in the economic reform, the act, as it now stands, equally requires that independence must follow its failure. Even a superficial view indicates that one formula must proceed to a conclusion before the other is entered upon.

Theoretically, it might appear possible to press forward to and beyond the establishment of independence, meanwhile retaining for the Philippines a trade economy dependent in a large degree on United States markets. But practical considerations do not favor such a procedure. The principal proponents of independence are continental groups which profit by relief from Philippine competition. These will not easily tolerate, after independence, continuing the situation which was their principal motive for the granting of independence. Again, during the first 5 years of the act, the Philippines is confronted with a natural but real impediment to economic reform by the excitement incident to establishment of the Commonwealth. The early years are absorbing both leaders and people to such an extent as to qualify rational or sustained attention to any problem other than their own political one.

With little probability of effective economic readjustment during the first half of the Commonwealth, the country will enter the second half unprepared to withstand the stringent economic conditions which the act imposes. With the application of the graduated export taxes, coconut oil, tobacco, cordage, and several minor agricultural exports will be successively eliminated, and most of the profit needed to finance private adjustment will be wiped out. Then, in what may be called the eleventh year of the act, independence causes the levy of 100-percent duties and the export sugar industry disappears in a moment. Trade losses on the import side would tend to equal those on the export side.

Serious as are the trade losses, there remains the estimate of decline in revenues of the central or insular government. Municipal and provincial revenues are derived over 75 percent from taxes on agricultural land and its improvements. To a predominant extent in nearly half the Christian Provinces this land is devoted to productions which are to be restricted or eliminated. No estimate has been at-

tempted of the bankruptcy of local governments due to the widespread nonpayment of taxes which would ensue.

Most of the central government income is derived from taxes on imports and domestic business, much of which is concerned with the handling and distributing of non-Philippine commodities. Consequently, any loss in overseas trade will affect domestic business and both directly and indirectly lower the income of the central government.

Noneconomic Factors

The economic question so far considered primary is possibly the least of arguments against Philippine independence. Among the more important points of consideration are:

- (a) The United States would surrender any voice in trans-Pacific affairs.
- (b) The peace of the Orient would be upset for many years.
- (c) A barrier reef of islands all within sight of each other, extending from Kamchatka on the north through the Philippines to Borneo on the south, in the hands of foreign powers would prejudice United States access to the Chinese market.
- (d) The United States would surrender the security of trans-Pacific air bases and steamship lines.
- (e) An independent Philippine government could not maintain its present exclusion of Asiatic immigration, and as a consequence a tremendous influx of Chinese would destroy her racial integrity and Christian culture.
- (f) With no middle class, an independent Philippine government could not compromise the social problem involved in a mestizo landlord ruling class and a native peasantry, and the result might be communism or reactionary dictatorship.
- (g) An independent Philippine government could not cope with the strong inherent sectionalism of its Christian peoples, nor, without a deliberate policy of extermination, with the 12 percent of pagan and Mohammedan peoples who occupy nearly one-third of its area.
- (h) An independent Philippine government could not take over without confiscation the 95 percent of its trade and finance now in the control of Chinese, Japanese, Americans, and Europeans.
- (i) An independent Philippine government could not defend itself against foreign conquest. There has not been a day from the instant of American occupation to the present when the Philippines, without the protection of the United States, could have maintained nationality by force of arms.
- (j) It is quite certain that independence at best means an exchange of racial and cultural integrity for nationalism; at the worst, the loss of both.

Conclusion

There are several points which in summary conclude my view of the problem which confronts us. There is first a three-part thesis so strong that it may fairly be taken as axiomatic:

- (a) Solution of the Philippine problem lies mostly in the correction and harmony of economic and political policies followed by the United States in respect to the islands.
- (b) The essential negative in the situation is that the final terms of the political policy cannot be successfully carried out until the economic policy has been corrected, not in law, but in fact.
- (c) The essential positive is that the successful correction of the economic policy should precede the consummation of the political policy.

A program of thoroughgoing economic adjustment must be scientifically sound. Science knows no dates. Attention should be concentrated on the content of the program rather than on a particular date as the objective. After the program is laid down, the next objective should be its accomplishment. If we have in mind the establishment

of an enduring and prosperous nation for the children of the Philippines rather than providing the trappings of a possibly premature sovereignty for their fathers, the question of dates may well be disregarded.

Finally, I find that important as economic and financial considerations may be, America has a bigger and broader stake in the Philippines than these concepts include. The United States has given of its blood and mind toward protecting and edifying a Christian oriental community and to bring them American ideas of humanity, democracy, and social progress. The United States has not only the right but the inescapable duty of conditioning political separation on assurances that her handiwork will endure and will weather both internal problems and the special external problems which any new nation in this part of the world must face.

Today the Philippines is the only bright, prosperous spot in the Orient. Its people enjoy the highest wages and best standard of living in the Far East. The deadly tropical diseases—smallpox, cholera, bubonic plague—which long decimated the population—have been wiped out. Thousands of miles of goods highways are maintained. Bridges have replaced bamboo rafts. The budget is balanced. Taxes are the lowest in the world. The reserve behind the currency is 100 percent. The per capita national debt is less than \$2. Schools and hospitals dot the jungle and plain. We built well in the Philippines. Our work is a monument to American idealism and enterprise—a living monument of 15 million rescued from tyranny, rebellion, ignorance, poverty, and disease, and set upon the path of free government, peace, education, prosperity, and health. With all seriousness, no nation in the world can boast of so grand a monument.

Again today the Philippines is a happy spot in an unhappy Orient—the one place out there where decency, democracy, and peace reign; where the orderly processes of democracy have a chance to develop; where, and only where, Christianity rules the souls of an eastern people; where and only where, the peculiar culture of America holds forth a torch of liberty and the love of fellow man.

A great British writer said after the World War that he did not fear that America should become the great leader of the world—that what he did fear was that America would refuse to take the position of leadership for which she was so eminently fitted both as to resources and ideals.

To us there comes a responsibility. It appears now in respect to the Philippine problem broadened to become a part of a greater oriental problem. If we scuttle, if we run away, our monument will be destroyed. The things we counted on, our aspirations to point the way to a new benign colonialism, our handicraft, will perish. Our grandchildren will read a history which will apply to us the epithet "quitter"—a word which is just about the worst insult in the lexicon of a true American.

I believe I voice the inherent desire of my Nation when I say that we want to solve the Philippine problem in fairness to all—we want to solve it just as we wish with fairness and justice to solve our domestic problems. It can be solved.

On the political side our flag and sovereignty should remain, allowing to the Philippines every ounce of domestic autonomy they can absorb—holding in our hands foreign affairs, tariffs, immigration,

currency, and public debt—scarcely more than marks of the necessary reservations of a dominion. We should feel free in case of any crisis to help preserve the democratic basis of the Philippine government.

On the economic side, we should from time to time give the Philippines the best trade deal we can without injuring our domestic producers. We must admit the possibility of competition. The present quantity quotas on sugar, coconut oil, and cordage should be retained, and if other or new commodities come into competition with homeside products they also should be restricted with quotas. Our aim should be to assist with capital and men, with goodwill and such preferences as we can afford, the return to a *complementary and reciprocal economy* between the United States and the Philippines.

Then there is the problem of military protection. I venture to predict that so long as our flag flies over the islands no foreign power will trespass irrespective of the military forces stationed there. So long as our flag flies there, the Philippines will be the cornerstone of peaceful reconstruction in the Far East. I further venture that if our flag comes down, the Philippines will become bloody ground and the center of war within war for a generation.

Granted the Philippines is an outpost and a distant one in miles—but today it is only 5 days by trans-Pacific clipper.

But, the Philippines is an outpost of decency and peace—the only safe outpost for Christianity in the Orient—the only sure outpost for Americanism in the Orient. And when have we not had outposts? Our entire history has been one of pushing the frontier; of setting distant points to be reached and distant aspirations to be achieved. Outposts have been the milestones of American progress.

Neither this American generation nor any other American generation should falter on its onward path. We cannot scuttle. We must not shirk.

Without too great a loss of time and with the cooperation of the leaders among the Filipinos we should proceed to a realistic reexamination of the needs of these people and the long-range interests of ourselves. If this study results in a policy favoring a permanent political and economic relationship with the Philippines, it shall be, I trust, because the Filipinos want it and because it is in aid of our national purposes. America will not impose her sovereignty by force upon any people. The enduring welfare and safety of both countries are to be the paramount considerations.

It is my conviction that they are not far apart and that they can be harmonized—harmonized for the salvation of the Philippines, for the larger interests of America, and for the peace of the Pacific.

APPENDIX B

B. No. 3307.

First National Assembly, Third Session, Begun and Held at the City of Manila on Monday, the 24th day of January 1938

An act to carry out more effectively the provisions contained in section nine hundred twenty-eight of Act Numbered Twenty-seven hundred eleven, known as the Administrative Code, and in section five, article thirteen of the Constitution, regarding optional religious instruction.

Be it enacted by the National Assembly of the Philippines:

SECTION 1. For the purpose of carrying out the provisions contained in section nine hundred twenty-eight of Act Numbered Twenty-seven hundred and eleven, known as the Administrative Code, and in section five, article thirteen of the Constitution, regarding optional religious instruction, it shall be the duty of the division superintendent of schools to fix an appropriate and reasonable hour for the students, which shall neither be too early nor too late; neither shall it be an hour which coincides with other school activities, such as athletics, military training, singing, literary and musical programs and rehearsals, society meetings, recesses and recreations, cleaning by the students of the school premises, nor shall athletics and military training take place immediately before the classes in religion. It shall be unlawful for any teacher or person connected with the Bureau of Education or persons under their supervision to permit any act or activity which directly or indirectly obstructs or renders ineffective the provisions of section nine hundred twenty-eight or Act Numbered Twenty-seven hundred and eleven.

SEC. 2. The parents or guardians shall not be required more than once to file petitions for their children's religious instruction.

SEC. 3. Any public school teacher or any person connected with the Bureau of Education who violates any of the provisions of the preceding section, shall be subject to administrative discipline under the provision of section six hundred ninety-five of Act Numbered Twenty-seven hundred and eleven as amended by section twenty-three of the Commonwealth Act Numbered One hundred seventy-seven.

SEC. 4. This Act shall take effect from the opening of the school year following its approval.

Approved:

Speaker of the National Assembly.

This Act was finally passed by the National Assembly on May 12, 1938.

Secretary of the National Assembly.

Approved:

President of the Philippines.

MALACAÑAN PALACE,
Manila, June 4, 1938.

GENTLEMEN OF THE NATIONAL ASSEMBLY: After a conscientious study of bill No. 3307 of the National Assembly entitled "An act to carry out more effectively the provisions contained in section nine hundred twenty-eight of Act Numbered Twenty-seven hundred eleven, known as the Administrative Code, and in section five, article thirteen of the Constitution, regarding optional religious instruction," I have come to the conclusion that it is unconstitutional, and therefore I deem it my duty to veto the same. My conclusion is based on the following grounds:

First. Contrary to the provisions of article VI, section 12, paragraph (1), of the Constitution, the real subject of the bill is not expressed in its title.

Second. In violation of the cardinal principle of constitutional law that a discretionary power granted by the Constitution to the Executive may not be abridged by either the legislative or the judicial branch of the government, the bill restricts the discretion vested by the Constitution in the Superintendent of Schools to fix the hour for religious instruction in the public schools.

Third. The bill substantially changes the policy embodied in section 928 of the Administrative Code regarding optional religious instruction, the maintenance of which is ordained by the Constitution.

I

Article VI, section 12, paragraph (1) of the Constitution provides:

No bill which may be enacted into law shall embrace more than one subject which shall be expressed in the title of the bill.

The title of the bill under consideration reads: "An act to carry out more effectively the provisions contained in section 928 of Act No. 2711, known as the Administrative Code, and in section 5, Article XIII, of the Constitution." According to this title, the object of the bill is merely the enforcement of section 928 of the Administrative Code and the compliance with the provisions of section 5, Article XIII, of the Constitution. The truth, however, is that section 1 of the bill not only amends the language but violates the spirit of section 928 of the Administrative Code and thereby contravenes section 5, article XIII, of the Constitution. This is clear from a mere com-

parison of section 928 of the Administrative Code with article 1 of the bill.

The real and true objective of those who favored the passage of the bill can easily be perceived by following the different steps taken by those who advocated it from the time the movement was initiated to change the present practice followed in the public schools with reference to religious instruction.

The movement was started with a letter written by a large number of members of the National Assembly and addressed to the Secretary of Public Instruction wherein the secretary was asked to promulgate new rules governing religious teaching in the public schools. Upon receiving the answer of the Secretary of Public Instruction denying the petition, a series of bills were presented in succession, all practically with the same title and for the same purpose. These bills were entitled: "An act providing for a course in character building and good manners and right conduct or in religion in the public schools, and for other purposes," and they provided for compulsory instruction in character building and good manners and right conduct, recognizing at the same time, however, the right of the parents or guardians to have their children or wards attend the classes in religious instruction in lieu of those in character building and good manners and right conduct.

When the question of the constitutionality of these different bills was raised on the floor of the National Assembly, those who advocated their passage were forced to present as a substitute, the bill under discussion, which apparently was approved on the assumption that the change in its title and provisions had made it conform to the Constitution. In this bill, the provision regarding the course in character building, good manners, and right conduct, has been eliminated and only the subject of religious instruction is left. But, while it purports merely to enforce the provisions of section 928 of the Administrative Code, it prescribes certain directions and requirements which would have the effect, if complied with, of giving religious instruction in the public schools a category which it does not possess under section 928 of the Administrative Code. Thus, while under this legal provision religious instruction is merely tolerated, under section of the bill, it is made a desired, if not a preferred subject.

To show the difference in practice between section 928 of the Administrative Code and section 1 of the bill, it is enough to bear in mind the legislative and administrative contemporary interpretation of Act No. 74 of the Philippine Commission approved on January 21, 1901, from which act section 928 of the Administrative Code was taken. Since the passage of Act No. 74, the Division Superintendent of Schools, in fixing the hour for religious instruction, always took into account the school hours and school activities in each school in order that it might not interfere with the teaching of other subjects or with other school activities which the pupils were required to attend.

The policy and practice thus established is reversed or modified under the provisions of section 1 of the bill. Here, the Superintendent of Schools is directed to fix an hour for religious instruction "which shall be neither too early nor too late; neither shall it be an hour which coincides with other school activities, such as athletics, mili-

tary training, singing and musical programs, rehearsals, society meetings, recesses and recreations, cleaning by the students of the school premises, nor shall athletics and military training take place immediately before the classes in religion." It is evident, therefore, that the intention of the bill is that if the program of classes and school activities fills entirely the school hours both in the morning and afternoon session as is now the case, one of the subjects or one of the school activities must be either eliminated or assigned an hour outside of the regular school hours, in order that the classes in religious instruction may be held as required by the bill.

It is thus manifest that the real intent and purpose of the bill is not the enforcement of section 928 of the Administrative Code, as expressed in its title, but the amendment thereof which cannot be done under the Constitution.

II

Article XIII, section 5, of the Constitution, in part, provides:

Optional religious instruction in the public schools shall be maintained as now authorized by law.

The law authorizing religious instruction in the public schools at the time of the approval of the Constitution is contained in sections 927 and 928 of the Administrative Code, reading as follows:

SECTION 927. *Discussion of religious doctrines to be eschewed.*—No teacher or other person engaged in any public school, whether maintained from insular, provincial, or municipal funds, shall teach or criticize the doctrines of any church, religious sect, or denomination, or shall attempt to influence the pupils for or against any church or religious sect. If any teacher shall intentionally violate this section he or she shall, after due hearing, be dismissed from the public service.

SECTION 928. *Provision for religious instruction by local priest or minister.*—It shall be lawful, however, for the priest or minister of any church established in the town where a public school is situated, either in person or by a designated teacher of religion, to teach religion for one-half hour three times a week, in the school building, to those public school pupils whose parents or guardians desire it and express their desire therefor in writing filed with the principal teacher of the school, to be forwarded to the division superintendent, who shall fix the hours and rooms for such teaching. But no public school teachers shall either conduct religious exercise or teach religion or act as a designated religious teacher in the school building under the foregoing authority, and no pupils shall be required by any public school teacher to attend and receive the religious instruction herein permitted. Should the opportunity thus given to teach religion be used by the priest, minister, or religious teacher for the purpose of arousing disloyalty to the United States, or of discouraging the attendance of pupils at such public school, or creating a disturbance of public order, or of interfering with the discipline of the school, the division superintendent, subject to the approval of the Director of Education, may, after due investigation and hearing, forbid such offending priest, minister, or religious teacher from entering the public school building thereafter.

As may be seen from the above quoted provisions of the Administrative Code, the Division Superintendent of Schools is given full discretion to fix any hour for religious instruction, at any time during or outside of regular school hours, considering not only the convenience of the students who are to be given such instruction, but also the requirements of the curriculum and the program of other school activities. This discretion of the Division Superintendent of Schools is impaired by the bill to such an extent that he may even be forced to

sacrifice required subjects or other school activities in order to give way to the teaching of religion.

It is an established principle of constitutional law that when the Constitution confers full discretion upon the executive as to the exercise of a certain power and does not specifically authorize the legislature to regulate or limit that discretion, every enactment impairing the free exercise thereof constitutes an invasion of the constitutional authority of the executive, and is, therefore, null and void.

III

The bill lays down a new policy on religious instruction in the public schools which is essentially different from, if not contrary to, that embodied in sections 927 and 928 of the Administrative Code, which the Constitution ordains shall be maintained.

In order to fully understand the meaning and scope of sections 927 and 928 of the Administrative Code, it is necessary to recur to its source and origin, which is section 16 of Act No. 74 of the Philippine Commission, approved on January 21, 1901. This act established the Department of Public Instruction, and in prescribing the powers and duties of that department and its officials, it provided for optional religious instruction.

Prior to the approval of that act, extended public hearings were held by the Philippine Commission. The question which aroused the greatest interest and caused the most spirited debates, not only amongst those who took part in the public hearings but also amongst the members of the Philippine Commission themselves, was precisely the question of religious teaching. There were two extreme views presented before the Philippine Commission: One opposing any and all kind of religious instruction in the public schools, and another, demanding that only the Catholic religion be taught in said schools. Commissioner Moses took the side of those who were opposed to the teaching of any religion in the public schools, upon the ground that to do so would be contrary to the principle of the separation of Church and State. Every member of the commission agreed that under the American system of government, with its doctrine of the separation of Church and State, the proposition that only the Catholic religion be taught in the public schools was inconceivable.

Mr. Taft who was then the president of the commission, and later, President of the United States, and until his death, Chief Justice of the Supreme Court of that country, in opposition to Commissioner Moses, took the stand that the public school buildings could be used for the teaching of religion without violating the doctrine of the separation of Church and State, if such teaching was given at a time when the school building was not needed for the purposes of a public school. In line of his theory, Mr. Taft submitted to the commission an amendment to the bill, which was approved and became section 16 of Act No. 74, and reads as follows:

No teacher or other person shall teach or criticize the doctrines of any church, religious sect or denomination, or shall attempt to influence the pupils for or against any church or religious sect in any public school established under this act. If any teacher shall intentionally violate this section, he or she shall, after due hearing, be dismissed from the public service.

Provided, however, That it shall be lawful for the priest or minister of any church established in the pueblo where a public school is situated, either in person

or by a designated teacher of religion, to teach religion for one-half an hour three times a week in the school building to those public school pupils whose parents or guardians desire it and express their desire therefor in writing filed with the principal teacher of the school, to be forwarded to the division superintendent, who shall fix the hours and rooms for such teaching. But no public school teacher shall either conduct religious exercises or teach religion or act as a designated religious teacher in the school building under the foregoing authority, and no pupil shall be required by any public school teacher to attend and receive the religious instruction herein permitted. Should the opportunity thus given to teach religion be used by the priest, minister, or religious teacher for the purpose of arousing disloyalty to the United States, or of discouraging the attendance of pupils at such public school, or creating a disturbance of public order, or of interfering with the discipline of the school, the division superintendent, subject to the approval of the General Superintendent of Public Instruction, may after due investigation and hearing, forbid such offending priest, minister, or religious teacher from entering the public school building thereafter.

This section was incorporated almost verbatim in sections 927 and 928 of the Administrative Code.

From the minutes of the Philippine Commission, volume 1, pages 171-180, the following is taken:

He (Mr. Taft) reviewed the proposed amendment in detail, point out its specific provisions and limitations, from which it was shown that the only use that could be made of the school building under the section was a use which was not to conflict in any way with the use of the building for the purposes of a public school.

Such then, as stated by its author, was the import and implication of the law which authorized the teaching of religion in the public schools. From the date that Act No. 74 of the Philippine Commission was approved to the time that it was incorporated in the Administrative Code and thereafter until the Constitutional Assembly approved section 5, article XIII, of the Constitution, the Division Superintendent of Schools only permitted the use of the school buildings for the teaching of religion when it did not conflict "in any way with the use of the building for the purposes of a public school."

The legal presumption is, of course, that when the Constitutional Assembly approved section 5, article XIII, of the Constitution, it was cognizant of the then existing law regarding religious instruction and the manner in which it was enforced by the Bureau of Education. Aside from this presumption, an examination of the records of the proceedings of the Constitutional Convention shows that the makers of the Constitution were fully informed of the law and existing regulations regarding optional religious instruction in the public schools when they approved section 5 of article XIII of the Constitution.

The original proposition regarding religious instruction was presented by Delegate Norberto Romualdez, now member of the National Assembly and one of the authors of the bill under consideration, who, through Delegate Godofredo Reyes, presented it to Delegate Jose P. Laurel who was the Chairman of the Committee on Bill of Rights. The proposition of Delegate Romualdez reads: "* * * that in all public schools there shall be prescribed a course in moral ethics or the religion of the parents of the school children, at the option of the parents." Delegate Romualdez wanted his proposition to be included in the Bill of Rights, but it was not included in the draft prepared by the committee. When the draft of the Constitution was presented to the Constitutional Convention, it contained a clause identical to

section 5, article XIII, of the Constitution. Delegate Artadi offered an amendment to that clause as follows: "En todas las clases publicas se incluire entre las asignaturas la moral o instruccion religiosa a opcion de los padres o encargados de los discipulos." ("In all the public schools there shall be included amongst the subjects, moral or religious instruction at the option of the parents or guardians of the pupils.")

During the discussion of the amendment of Delegate Artadi, statements were made by several delegates which were recorded in the proceedings of the Constitutional Convention showing that the delegates knew that there was at that time a law authorizing optional religious instruction in the public schools and that they were also informed of the practice followed by the Division Superintendent of Schools in fixing the hour for the teaching of religion. Delegate Manuel Roxas who objected to the amendment offered by Delegate Artadi said that under existing law optional religious instruction was permitted in the public schools and explained the practice that was being followed. To this, Mr. Artadi answered: "That is precisely what I am opposing, the present provisions of the law. * * *" Other delegates of the Convention took part in the discussion and when the amendment of Mr. Artadi was put to a vote, it was voted down on a division, and the clause as now appears in section 5, article XIII, of the Constitution was approved by a vote *viva voce*.

As already stated, optional religious instruction was prescribed by law as early as 1901. Under said law and conformably to its provisions, rules, and regulations were issued by the Bureau of Education which had been in force without change until 1934, prior to the approval of the Constitution. The members of the Constitutional Convention were cognizant of the provisions of the law and the rules and regulations promulgated thereunder. Attempts were made to change the law. The Constitutional Convention rejected these attempts and went to the extent of specifically confirming and ratifying the legislation then in force.

To me, it is very clear that the National Assembly can in no manner amend the present law without violating section 5, article XIII, of the Constitution. Any attempt, directly or indirectly, to give to religious teaching in the schools an importance lesser or greater than is now accorded to it by law, would be unconstitutional. Even without recurring to the statements of Mr. Taft above adverted to, the letter and spirit of sections 927 and 928 of the Administrative Code which, by reference, have been made a part of the Constitution, clearly indicate, in my opinion, that the intent and purpose thereof, is merely to tolerate the teaching of religion in the public schools and not to give it such prominence or encouragement, as contemplated in the bill under consideration.

In view of the foregoing, I am returning bill No. 3307 of the National Assembly without my signature.

Respectfully,

(Sgd.) MANUEL L. QUEZON,
President of the Philippines.

THE NATIONAL ASSEMBLY, MANILA.

APPENDIX C

MALACAÑAN PALACE,
Manila, June 18, 1938.

GENTLEMEN OF THE NATIONAL ASSEMBLY: I have the honor to inform you that I have today disapproved bill No. 2156 entitled "An act appropriating two and one-half million pesos for the classification, survey, and subdivision of public agricultural lands."

I would have been willing to approve this bill which has for its main purpose the acceleration of the development of our public agricultural lands, had you included in it the proviso recommended by our finance officials authorizing the President of the Philippines to suspend or otherwise stop the expenditure of the amount herein appropriated if the public interest so demands. The Commissioner of the Budget has reported to me that the appropriation for the recurring expenses authorized in the 1939 General Appropriation Act leaves, as an excess of ordinary income over ordinary expenditures, only a small amount which is inadequate to take care of contingencies, especially at this time when the revenue collections are not steady. Insertion of a proviso of suspension of expenditures, as above pointed out, would have constituted a sufficient safeguard to meet any contingency that may arise affecting the stability of the national budget.

Respectfully,

(Sgd.) MANUEL L. QUEZON,
President of the Philippines.

APPENDIX D

MALACAÑAN PALACE,
Manila, June 18, 1938.

GENTLEMEN OF THE NATIONAL ASSEMBLY: I have the honor to inform you that I have today disapproved bill No. 2777 entitled "An act to appropriate four million eight hundred thousand pesos from the excise tax received from the Government of the United States to reimburse the amount appropriated under Act Numbered Thirty-nine hundred and thirty-two from funds under Act Numbered Twenty-nine hundred and forty for the construction of irrigation systems."

The Commissioner of the Budget has reported to me that there is no balance available for appropriation in the coconut oil excise tax fund to cover the amount that is proposed to be appropriated in the within bill. However, recognizing the importance of irrigation projects in the development of our agriculture, I would have had no hesitancy in approving the bill under consideration, had there been inserted a proviso authorizing the President of the Philippines to suspend or otherwise stop the expenditure of this fund if the public interest so demands, similar to that which appears in the General Appropriation Act. The amount appropriated is intended to be taken from the coconut oil excise tax fund which, as you know, is an extraordinary income of the Government, the source of which may be stopped at any time. The insertion of a proviso of suspension of expenditure, as above pointed out, would have constituted a sufficient safeguard against any contingency that may arise affecting the stability of this fund.

Respectfully,

(Sgd.) MANUEL L. QUEZON,
President of the Philippines.

APPENDIX E

MALACAÑAN PALACE,
Manila, June 18, 1938.

GENTLEMEN OF THE NATIONAL ASSEMBLY: I have the honor to inform you that I have today disapproved bill No. 3494 entitled "An act to appropriate the sum of two million pesos to defray the expenses for the participation of the Commonwealth of the Philippines in the Golden Gate International Exposition to be held in San Francisco, California, and in the World's Fair to be held in New York City, New York, during the year Nineteen hundred and thirty-nine."

During your last regular session, I recommended the enactment of the necessary legislation to enable the Philippines to participate in the Worlds' Fair in New York City and in the Golden Gate International Exposition in San Francisco, Calif., which will be held simultaneously in 1939. I felt then as now that the participation of the Philippines in these two expositions would offer a unique opportunity for the Philippines to educate the world in general and the American public in particular regarding our arts and culture, our social, political, and industrial progress and the development of our natural resources.

You readily responded to my recommendation by passing the bill under consideration which would appropriate the sum of 2 million pesos for the purpose, such sum to be taken from the proceeds of the coconut oil excise tax collected in the United States accruing to the Philippine treasury. Since the enactment of this bill, however, the Joint Preparatory Committee has made certain recommendations as to the use of the coconut oil funds in connection with the readjustment of our national economy. An intelligent program of economic readjustment is of paramount importance. We cannot handicap it for lack of sufficient funds with which to carry it out. Much as I deem of value to the Philippines our participation in these expositions, it must be readily admitted that it is not nearly as great and as of permanent effect as the success of the readjustment of our national economy. Were the ordinary income of the government sufficient to defray the cost of our participation in the said expositions after the ordinary expenses of the government have been covered, I would not hesitate to recommend that the 2 million pesos herein appropriated be taken from the general fund. Such not being the case we shall have to deprive ourselves of the privilege and advantage of taking part in the fairs of San Francisco and New York.

Respectfully,

(Sgd.) MANUEL L. QUEZON,
President of the Philippines.

APPENDIX F

MALACAÑAN PALACE,
Manila, June 18, 1933.

GENTLEMEN OF THE NATIONAL ASSEMBLY: It is with reluctance that I have today disapproved bill No. 3603 entitled "Ley sobre libros de texto," because this bill, aside from improving the present constitution of the membership of the Textbooks Board so as to conform to the present organization of the government, contains an excellent provision which would prohibit the use of notes or outlines in addition or supplementary to textbooks without the approval of the said board and unless the said notes or outlines are furnished free to the students. This provision would correct the abuses committed in some schools where notes or outlines have been sold to students at a cost not warranted either by the nature or the quality of the materials sold.

My attention has been invited, however, to the provision of section 3 of the bill which directs that in the approval of textbooks, preference be given to books written or edited by national authors and editors. Such provision may be interpreted as permitting a discrimination against American authors and editors during the transition period, in which case it would infringe upon that provision of the ordinance appended to the Constitution which guarantees to American citizens and corporations the same civil rights as are enjoyed by citizens and corporations, respectively, of the Philippines. It has been pointed out to me that the constitutional objection above stated could be obviated by interpreting section 3 of the bill as subject to the requirement contained in the Constitution and in the Tydings-McDuffie law, so that during the transition period, American authors and editors may enjoy the same preference as is therein enjoined for national authors and editors. Notwithstanding this consideration, I am disapproving this bill as we should not enact any law which would give even the slightest hint of discrimination against the American people.

Respectfully,

(Sgd.) MANUEL L. QUEZON,
President of the Philippines.

APPENDIX G

Finances of the Commonwealth of the Philippines as a Unit

The supplements of the Auditor General's annual reports covering financial data of the Commonwealth as a unit for the periods under review have not been released by the Bureau of Printing at the date of the writing of this report. The following are extracts from a report of the American Trade Commissioner, Manila, dated March 26, 1940, in compliance with a radiogram of the Department of State dated March 5, 1940, are presented as tentative figures on governmental finance as a unit.

Consolidated figures covering revenue and expenditures of the government of the Commonwealth of the Philippines as a unit, comprising all departments, bureaus, offices, Provinces, cities, municipalities and provincial hospitals, are being transmitted herewith, the figures being based on information secured from the Auditor General of the Commonwealth government. All inter-governmental transactions have been eliminated and the accompanying figures are net.

I. Fiscal Year Ended December 31, 1938

During the year under review, the Government of the Commonwealth as a unit collected a total income amounting to ₱178,534,676, incurred a total expenditure of ₱180,558,127, thus exceeding the income in the sum of ₱2,023,451, compared with the excess of income over expenditure in 1937 in the amount of ₱115,090,349.

The following comparative statement of income and expenditures is presented to show the result of operation of the fiscal year 1938 as compared with that of the previous year:

	Fiscal year 1938		Fiscal year 1937	
	Pesos	Ratio to total income, percent	Pesos	Ratio to total income, percent
Income:				
Revenue from taxation.....	130,591,761	73.14	232,403,021	84.10
Incidental revenue.....	10,206,151	5.72	10,470,191	3.79
Earnings and other credits.....	37,736,764	21.14	33,470,809	12.11
Total.....	178,534,676	100.00	276,344,021	100.00
Expenditures:				
Revenue service.....	23,223,799	13.01	20,006,393	7.24
Debt service.....	11,177,551	6.26	11,368,784	4.11
General welfare service.....	111,009,183	62.18	94,339,212	34.14
Outlays and investments.....	31,423,223	17.60	28,683,904	10.38
Miscellaneous and extraordinary charges.....	3,724,371	2.08	6,855,379	2.48
Total.....	180,558,127	101.13	161,253,672	58.35
Excess of income over expenditures.....	(2,023,451)	(1.13)	115,090,349	41.65

The net result of the financial operation of the Commonwealth government as a unit for the fiscal year 1938 compared with that of 1937, is summarized below:

	Dec. 31, 1938	Dec. 31, 1937
Current surplus:	<i>Pesos</i>	<i>Pesos</i>
National government.....	196,359,909	204,289,317
Provincial Governments.....	10,035,516	8,411,476
Municipal governments.....	13,042,977	10,164,368
Chartered cities.....	4,784,576	3,180,912
Metropolitan Water District.....	1,453,310	1,666,089
Provincial hospitals.....	570,289	557,865
Total.....	226,246,577	228,270,027
Miscellaneous reserves: (Metropolitan Water District).....	883,223	271,974

II. Fiscal Year Ended June 30, 1939

The fiscal year under review covers only the 6 months from January 1 to June 30, 1939, since the fiscal year of the Commonwealth government has been changed from the calendar year to the 12 months ended with June 30. During this 6 months period, total net receipts collected by the Commonwealth government as a unit amounted to ₱114,228,246, while the corresponding expenditures amounted to ₱113,133,681, or a superavit of ₱1,094,565, which increased the current surplus of ₱226,246,576 at the beginning of the fiscal year to ₱227,341,141 at the end of the period under review.

The following statement of income and expenditures is presented to show the result of operation for the fiscal year ended June 30, 1939:

	<i>Fiscal year ended June 30, 1939</i>
Income:	
Revenue from taxation.....	₱64,515,608
Incidental revenue.....	5,442,434
Philippine coconut oil excise tax.....	25,757,352
Earnings and other credits.....	18,512,852
Total.....	<u>114,228,246</u>
Expenditures:	
Revenue service.....	11,538,758
Debt service.....	4,862,720
General welfare service.....	68,867,813
Outlays and investments.....	26,561,792
Miscellaneous and extraordinary charges.....	1,302,598
Total.....	<u>113,133,681</u>
Excess of income over expenditures.....	<u>1,094,565</u>

The net result of the financial operation of the Commonwealth government as a unit for the fiscal year ended June 30, 1939, is summarized below:

Current surplus:	
National government.....	₱199,373,225
Provincial governments.....	7,892,204
Municipal governments.....	12,502,117
Chartered cities.....	5,723,636
Metropolitan Water District.....	1,521,879
Provincial hospitals.....	598,081
Total.....	<u>227,341,142</u>
Miscellaneous reserves (Metropolitan Water District).....	<u>1,002,982</u>

In connection with the provincial, city, and municipal finances, the Secretary of Finance commented thereon in his annual report for the fiscal year 1938 as follows:

Provincial finances.—During the year, the 49 provinces realized a total income of ₱7,737,528.90 in the general fund and ₱27,590,624.17 in all funds (consolidated), as compared with ₱8,236,603.16 and ₱30,595,656.34, respectively, realized in 1937, or a decrease of ₱429,074.26 in the general fund and ₱3,005,032.17 in all funds (consolidated). The decrease in the general fund was due to the fall in the collection of the real property tax in Provinces visited by typhoons, floods, and other public calamities and to the reduced collection from mining fees. The decrease in all funds (consolidated) was mainly due to the change in the procedure of accounting for receipts from the motor vehicle and manufactured oils taxes. Prior to 1938, the proceeds from these taxes, when allotted to the Provinces, were credited in the road and bridge fund as income. In 1937, the Provinces were credited with an income from this source in the total amount of ₱9,559,114.19. Beginning 1938, only 20 percent of the collections from said taxes is being made to accrue to the provincial road and bridge fund. The remaining 80 percent is distributed among the Provinces in the form of advances to be spent for the construction and maintenance of roads and bridges.

City finances.—The financial operations of the chartered cities during the year 1938 were also satisfactory. All the cities closed their accounts at the end of the year with substantial unappropriated surpluses, in spite of the fact that their total expenditures in 1938 exceeded those in 1937 by ₱1,164,516.06. This was due to the increase in their total income during the year 1938 in the amount of ₱2,609,096.43.

Municipal finances.—Five hundred and twenty municipalities recorded, at the end of the year 1938, increased net surpluses and 395 municipalities decreased surpluses, as compared with their net surplus at the end of the year 1937. Five municipalities recorded the same amounts of surpluses as in the preceding year. Of the 61 municipalities that had overdrafts in the general fund at the beginning of the year, 42 wiped out their overdrafts while 8 municipalities incurred overdrafts during the year, thus reducing the total number of municipalities with overdrafts at the end of 1938 to 27. Taking this into account and the fact that the municipalities were as a whole paying higher rates of compensation to their officials and employees in 1938 than in previous years, this department considers their financial operations during the year a success.

APPENDIX H

Review of 1938 Foreign Trade of the Philippine Islands ¹

PAUL P. STEINTORF, *American Trade Commissioner, Manila*

Foreign trade in 1938 was featured by a heavy increase in imports and an even larger decline in exports with a resulting unfavorable balance of merchandise trade for the first time since 1921. Total trade for the year amounted to ₱496,805,649, a decline of 4.6 percent from 1937 but an increase over any preceding year since 1929.

Imports showed the usual seasonal trend, reaching a peak in March, declining thereafter until August, advancing again in September but falling sharply in October and November, with a marked advance featuring the last month of the year. With the exception of October and November, imports each month were substantially above corresponding month of 1937. Export trade showed a somewhat similar tendency, with a peak in March, declining thereafter through November and advancing in December. With the exception of March, every month was below the previous year. Details of trade trend during 1936 to 1938, inclusive, are given in appendix I. The trade trend during recent years is tabulated below (in thousand pesos):

Year	Exports	Imports	Total	Export excess	Import excess
1931.....	207,944	198,357	406,301	9,587	-----
1932.....	190,676	158,790	349,466	31,886	-----
1933.....	211,542	134,723	346,265	76,819	-----
1934.....	220,807	167,214	388,021	53,593	-----
1935.....	188,491	171,048	359,539	17,443	-----
1936.....	272,896	202,252	475,148	70,644	-----
1937.....	302,532	218,051	520,583	84,481	-----
1938.....	231,590	265,215	496,805	-----	33,625

It will be noted that both exports and imports are subject to very sharp fluctuations from year to year with no definite trend apparent. However, in every year except 1938, the balance of trade has been in favor of exports.

¹ Special Report No. 39/23, Manila, Mar. 8, 1939. It should be noted that this report excludes Philippine gold exports when treating of trade statistics.

An analysis of trade by commodity groups is given below:

	In percent		
	1936	1937	1938
Imports:			
Foodstuffs	19.8	18.1	15.8
Textile fibers and manufactures	20.6	21.4	21.1
Machinery and vehicles	14.1	15.8	16.3
Metals and manufactures (except machinery)	11.2	12.1	11.0
Nonmetallic minerals	10.4	8.9	8.9
Chemicals and related products	7.8	7.2	7.6
Inedible vegetable products	6.1	5.7	8.3
Miscellaneous	10.0	10.8	11.0
Total	100.0	100.0	100.0
Exports:			
Nonagricultural:			
Crude materials	1.4	2.0	3.7
Semimanufactures			.3
Finished manufactures	.2	.2	.4
Others	.9	1.3	1.7
	2.5	3.5	6.1
Agricultural:			
Crude materials	2.9	2.4	2.6
Semimanufactures	38.6	44.2	34.2
Finished manufactures	56.0	49.9	57.1
	97.5	96.5	93.9
Total	100.0	100.0	100.0

Since the Philippines is essentially an agricultural country, imports consist almost entirely of manufactures and prepared foodstuffs. The fluctuations in the relative importance of the different import groups have not been particularly marked. Comparing 1938 with 1937, there was a very marked decline in the relative importance of foodstuffs, with smaller declines in textile fibers and manufactures and metals and manufactures (except machinery). The largest gains were in inedible vegetable products and machinery and vehicles.

About 95 percent of the Philippine exports consist of agricultural products, although it is apparent that in 1938 there was a very definite increase, both actually and relatively, in nonagricultural products. This is due almost entirely to shipments of various minerals and ores. About 57.5 percent of total exports in 1938 were made in finished form, this being a record for recent years. However, this comparatively high figure is due almost entirely to the inclusion of centrifugal sugar under this class, which may be open to question.

Import Trade

Imports during 1938 totaled ₱265,215,095, a gain of ₱47,163,605, or 21.6 percent, over 1937 and the highest annual imports since 1929. It is rather difficult to find a satisfactory explanation for the remarkably heavy imports during the current year. One cause was undoubtedly the higher prices of various import commodities, while local contributing factors were the various government purchases for the National Development Co.'s industrialization program, the activity in the mining industry and the building boom in Manila. It is reasonably certain also that there was very substantial overbuying

in a number of lines, resulting in extremely heavy stocks of various commodities.

An analysis of imports by principal commodity groups indicates that the gains during the current year were remarkably widespread. In fact, practically every import group showed fairly substantial increases, the largest being in inedible vegetable products (9.6); textiles and manufactures (9.5); machinery and vehicles (8.8); chemicals (4.4); nonmetallic minerals (4.1); metals and manufactures, excluding machinery (2.7); and foodstuffs (2.5). The largest gains by individual commodities were in cigarettes (8.5); cotton piecegoods (7.4); mineral oils (3.3); automobiles and trucks (2.6); wheat flour (2.0); printing paper (1.6); dairy products (1.5); miscellaneous cotton manufactures (1.5); and printed matter (1.2). Detailed figures of the principal commodities for 1936 to 1938, inclusive, are given in appendix II.

(The figures in parentheses represent increases in million pesos during 1938 in comparison with 1937.)

Export Trade

Exports during 1938 were valued at ₱231,590,554, a decline of ₱70.-941,946, or 23 percent, compared with 1937. This comparison is somewhat misleading, in that 1937 was a remarkably good export year. Actually, imports during 1938 were only 2.5 percent below the average for the 5 years, 1933-37, inclusive. The decline in the value of trade during the current year may be attributed almost entirely to the low prices of Philippine commodities. The average prices of the four principal commodities, namely, sugar, abaca, copra, and rice, were 25 percent lower in 1938 than in 1937, this being more than the actual decline in the value of trade. It is reasonably certain that the volume of business in 1938 was little, if any, below the previous year. Available figures show that all of the principal products, with the exception of abaca, increased in quantity in 1938 but declined substantially in value. Even in the case of abaca, the decline in value was considerably greater than in quantity. On a value basis, the principal declines were (in million pesos): abaca (22.9); coconut oil (19.5); centrifugal sugar (13.2); copra (7.4); desiccated coconut (6.0); refined sugar (2.1); maguey (1.5); and timber (1.5).

The above figures are purely for merchandise trade and exclude the very substantial exports of gold and silver bullion and ores. Such shipments during 1938 totaled ₱62,410,757, which compares with ₱48,124,831 in 1937. Adding this to the merchandise trade gives total exports of some ₱293,001,000, which would make the balance of trade some ₱27,786,000 in favor of the Philippine Islands. Details of exports of the principal commodities during 1936 to 1938, inclusive, are given in appendix III.

Distribution

The United States predominates in the Philippine trade as shown in the following summary:

	In percent					
	Exports		Imports		Total	
	1937	1938	1937	1938	1937	1938
United States.....	80.43	78.11	58.39	68.46	71.20	73.00
Orient.....	9.21	9.85	27.52	18.82	16.90	14.60
Europe.....	8.82	10.21	11.77	10.72	10.10	10.50
Others.....	1.54	1.83	2.32	2.00	1.80	1.90

It is apparent that the United States participation increased with respect to total trade during the current year, this being due entirely to a sharp increase in our share of imports, whereas there was a fairly substantial decline in exports. The share of oriental countries declined rather substantially, this being a natural result of the China Incident. There were fractional gains in participation by Europe and miscellaneous countries.

Normally, there is a large favorable trade balance with the United States and a moderate positive balance with Europe but a very heavy adverse balance with oriental countries. The year 1938 was unique, in that trade with all areas was adverse to the Philippine Islands. A summary of trade by principal areas for 1931 to 1938, inclusive, is given in appendix IV.

Trade by Countries

Oriental countries.—Japan accounts for considerably more than half of the trade with oriental countries and ranks next to the United States in importance. During 1938 trade was affected by war conditions and the consequent restrictions imposed by Japan upon trade and exchange. As a result there were sharp declines both actually and relatively in exports and imports during 1938. Exports were valued at ₱15,026,342, representing 6.49 percent of the total, against 6.62 percent in 1937. There was a decline of some 25 percent in total value, this being attributed principally to much smaller purchases by Japan of abaca and timber. Imports from Japan during 1938 totaled ₱25,414,083, a decline of 21 percent from the previous year. Japan's participation in the import trade fell to 9.58 percent, against 14.77 percent in 1937.

China ranks next among the oriental countries, taking Philippine exports to a total of ₱1,904,536 in 1938, which is a decline of only 2 percent from the previous year. Imports from China also were remarkably well maintained in view of war conditions, being valued at ₱6,150,669, which is some 9 percent below 1937.

Trade with the Netherlands Indies showed a rather remarkable increase during 1938. Imports were valued at ₱5,842,255, which is an increase of 29 percent. Exports reached an aggregate value of ₱990,670, a gain of 11 percent.

Trade with British East Indies declined to some extent during the current year. Exports to that area totaled ₱1,356,416, falling 2.8 percent, while imports were valued at ₱4,688,601, which is also a decline of 2.8 percent.

Europe.—Great Britain ranks first among European markets, accounting for 2.05 percent and 2.60 percent of imports and exports, respectively, in 1938. Trade during 1938 was featured by a small gain in imports, which were valued at ₱5,432,927, an increase of ₱210,650 over 1937 and an extremely sharp decline in exports, which amounted to only ₱6,017,116 during the year, against ₱12,466,196 in 1937, or a decline of 51.73 percent. Complete figures are not available to show the reason for this decline, but it is believed to be a result of much smaller purchases by Great Britain of lumber and abaca, with the lower prices of copra and other coconut products a contributing factor.

Germany ranks second among European countries, accounting for 3.13 percent of imports and 1.29 percent of exports during 1938. Imports during the year were valued at ₱8,309,238, which is almost exactly the same as in 1937 but represents a decline on a relative basis. Exports to Germany during the year were valued at ₱2,988,229, falling 17.5 percent, this being attributed almost entirely to lower prices.

The Netherlands ranks next in importance, with 2.20 percent of both imports and exports during 1938. Trade during the year increased very materially, total imports of ₱5,833,732 being 32.4 percent above 1937, while exports of ₱5,082,032 showing an increase of 137.7 percent. The import increase may be attributed largely to purchases of canned milk and that in exports to sales of copra.

Details of trade by countries during 1937 and 1938 are given in appendix V.

Trade with the United States.—The year 1938 was in many ways a banner year in United States trade with the Philippine Islands. It is remarkable that the balance of merchandise trade was favorable to the United States for the first time since 1921, total imports having amounted to ₱181,556,478, while exports were ₱180,891,621, giving a favorable balance of ₱664,857. These figures include American possessions. In comparison with 1937, imports increased ₱54,243,422, or 42.6 percent, while exports declined ₱62,446,976, or 25.7 percent. Imports from the United States were the largest since 1929 and represented the greatest percentage of total imports in the history of the country. It is certain also that the United States was the principal and almost the sole beneficiary of the increased imports during 1938. Exports to the United States during the current year were the smallest since 1932 in total value and represented the smallest percentage of total trade since 1929. This comparatively unfavorable showing may be attributed to the low prices of Philippine products and to less favorable economic conditions in the United States.

Imports.—An analysis of the United States participation by principal import groups shows substantial increases in every category, with

the sole exception of a fractional decline in dairy products. An analysis on this basis is given below:

	Percent of total			Percent of total	
	1937	1938		1937	1938
Breadstuffs.....	25.6	55.9	Iron, steel, and manufactures (except machinery).....	68.0	76.7
Automotive.....	92.8	94.7	Fertilizers.....	40.1	73.1
Chemicals, drugs, etc.....	65.8	70.4	Rubber manufactures.....	86.2	86.3
Cotton and manufactures.....	43.9	63.5	Leather and manufactures.....	91.0	92.3
Electrical products.....	84.8	85.7	Mineral oils.....	74.7	75.0
Marine products.....	30.1	42.9	Dairy products.....	25.8	24.4
Fruits and nuts and vegetables.....	51.0	59.7	Tobacco products.....	98.8	99.6
Machinery and parts.....	80.0	83.3	Paper.....	65.9	69.6

Imports of wheat flour from the United States reached an all-time high of 109 percent in quantity and 107 percent in value compared with 1937. Imports from both Australia and Canada, the principal competing countries, showed declines both actually and relatively.

The official trade figures show increases of 32 percent in quantity and 36 percent in value of imports of automobiles and trucks from the United States in 1938. In this case, these figures are actually misleading, since they represent customs liquidations and include a large number of motor vehicles which were actually imported during the latter part of 1937 but which did not appear in the customs statistics until 1938. It is believed that actual imports during 1938 were somewhat below the previous year, this contention being supported by unofficial figures of imports by dealers.

Imports of cotton cloth from the United States were the highest since 1932. A comparison with 1937 shows gains of 178 percent in quantity and 106 percent in value. Their relative position in the market was the largest since the large-scale entry of Japan into the trade. Imports from Japan for the current year show declines of 55 percent in quantity and 26 percent in value.

Imports of American sardines recorded gains of 102 percent in quantity and 140 percent in value during 1938, this being attributed almost entirely to less severe competition from Japan. Fresh fruits imports showed a gain of 77 percent in value.

Among the leading machinery import items, there was a gain of 38 percent in value of mining machinery but a decline of 19 percent in value of stationary and marine engines, this decline being attributed to more effective German competition on diesel engines.

The iron and steel group recorded gains in all principal classifications, with the exception of corrugated roofing which declined about 9 percent in quantity but increased 8 percent in value. The largest gain in 1938 was in steel bars and rods, which showed nearly a three-fold increase over the previous year.

Although, as previously indicated, the American share of the dairy products trade declined to some extent, there were actual increases in imports, condensed milk showing gains of 32 percent in quantity and 24 percent in value and evaporated milk 9 percent in quantity and 13 percent in value.

In the mineral oils group, there were very marked increases in imports from the United States of crude fuel oil and lubricating oil but fairly substantial declines in gasoline and kerosene. Meat products is the only important item showing an actual decline in 1938 and this was comparatively unimportant, amounting to only 5 percent. Imports of pharmaceutical products showed a very marked increase of 87 percent in total value, while perfumery and cosmetics increased 28 percent.

Imports of American leaf tobacco gained 70 percent in quantity and 80 percent in value, while cigarettes showed the remarkable improvement of 120 percent in quantity and 134 percent in value. Other import items recording gains during 1938 were automobile tires, 55 percent in quantity and 26 percent in value; printing paper, 53 percent in both quantity and value; and wrapping paper, 20 percent in quantity and 82 percent in value.

Details of imports during 1937 and 1938 are given in appendix VI.

Exports.—Exports to the United States during 1938 show fairly substantial declines in practically all items but in almost every case, the drop in value was substantially greater than that in quantity. Shipments of abaca to the United States during the current year showed declines of 32 percent in quantity and 65 percent in value. Exports of copra showed a 10 percent increase in quantity but a 44 percent decrease in value, this being the outstanding example of the low prices prevailing during 1938. Similarly, exports of copra cake and meal declined 21 percent in quantity and 44 percent in value, while the drop in desiccated coconuts was 15 percent in quantity and 40 percent in value. Shipments of coconut oil were less than one-half of 1 percent below 1937 in quantity but fell some 48 percent in value. Similarly, aggregate shipments of sugar were almost exactly the same during the 2 years, but the 1938 value was some 13 percent lower.

Cigars appear to be the only item on which average prices were higher in 1938, since there was a drop of about one-half of 1 percent in quantity but a slight increase in total value. Shipments of lumber and timber for the year recorded decreases of 36 percent in quantity and 38 percent in value. Among the less important products, there were declines in cordage, chemicals, fruits, canned pineapple, hats, vegetable lard and butter, chrome ore and buttons, the only increases being in cutch and gums and resins.

Details of exports during 1937 and 1938 are given in appendix VII.

PAUL P. STEINTORF,
American Trade Commissioner.

*Manila—Special Report No. 39/23—Review of 1938 foreign trade of the
Philippine Islands*

APPENDIX I.—TRADE BY MONTHS DURING 1936 TO 1938, INCLUSIVE

	Exports	Imports	Balance
	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
1936—January	19, 104, 360	19, 040, 253	64, 107
February	28, 214, 938	14, 919, 652	13, 295, 286
March	25, 311, 492	17, 192, 315	8, 119, 177
April	28, 410, 907	12, 910, 051	15, 500, 856
May	32, 987, 253	14, 624, 503	18, 362, 750
June	28, 590, 611	19, 184, 426	9, 406, 185
July	21, 370, 767	14, 936, 619	6, 434, 148
August	14, 889, 652	16, 861, 188	—1, 971, 536
September	17, 893, 731	20, 473, 570	—2, 579, 839
October	13, 255, 706	17, 499, 952	—4, 244, 246
November	14, 840, 948	12, 960, 363	1, 880, 585
December	28, 025, 741	21, 649, 457	6, 376, 284
Total	272, 896, 106	202, 252, 349	70, 643, 757
1937—January	23, 495, 490	13, 634, 298	9, 861, 192
February	25, 821, 951	13, 875, 544	11, 946, 407
March	28, 564, 287	25, 807, 287	2, 757, 000
April	28, 846, 036	20, 035, 595	8, 810, 441
May	27, 171, 911	16, 210, 845	10, 961, 066
June	31, 615, 494	19, 094, 644	12, 520, 850
July	26, 888, 069	19, 227, 946	7, 727, 802
August	29, 602, 529	13, 648, 557	15, 953, 972
September	23, 621, 333	16, 354, 896	7, 266, 437
October	17, 404, 198	25, 231, 038	—7, 826, 840
November	16, 089, 261	16, 302, 051	—212, 790
December	23, 344, 232	18, 628, 789	4, 715, 443
Total	302, 532, 500	218, 051, 490	84, 481, 010
1938—January	20, 969, 187	21, 511, 376	—542, 189
February	21, 505, 069	24, 277, 106	—2, 772, 037
March	31, 209, 013	37, 325, 067	—6, 116, 054
April	20, 738, 362	26, 824, 756	—6, 086, 394
May	18, 919, 150	24, 281, 554	—5, 362, 404
June	19, 284, 611	19, 574, 512	—289, 901
July	18, 204, 180	20, 560, 370	—1, 957, 567
August	17, 687, 962	16, 485, 908	1, 202, 054
September	16, 869, 700	22, 230, 921	—5, 361, 221
October	14, 370, 644	17, 790, 550	—3, 419, 906
November	12, 657, 331	13, 820, 352	—1, 163, 021
December	18, 776, 722	20, 532, 623	—1, 755, 901
Total	231, 590, 554	265, 215, 095	—33, 624, 541

APPENDIX II.—IMPORTS BY PRINCIPAL COMMODITY GROUPS FOR 1939 TO 1938,
INCLUSIVE

	1936	1937	1938
FOODSTUFFS			
Rice.....	<i>Pesos</i> 5,874,635	<i>Pesos</i> 4,863,344	<i>Pesos</i> 999,748
Wheat flour.....	7,900,519	8,204,725	10,263,300
Other breadstuffs.....	1,266,905	1,437,258	1,563,930
Cocoa and manufactures.....	923,865	1,266,652	1,329,684
Coffee.....	1,302,200	1,358,545	1,579,113
Confectionery.....	427,585	532,584	585,036
Eggs and preparations.....	297,201	306,605	302,909
Fish and fish products.....	3,085,815	3,559,057	3,811,035
Fruits and nuts.....	2,834,001	2,391,818	3,449,635
Meat products.....	2,887,070	2,642,923	3,030,494
Dairy products.....	8,137,284	7,438,745	8,948,784
Spirits, wines, etc.....	1,273,554	1,419,831	1,574,338
Sugar and molasses.....	353,845	400,226	386,887
Tea.....	137,734	150,185	142,294
Vegetables.....	3,882,919	3,502,957	3,985,732
Total.....	40,058,132	39,475,455	41,952,919
TEXTILE FIBERS AND MANUFACTURES			
Cotton piecegoods.....	18,609,388	21,357,095	28,746,666
Other cotton manufactures.....	11,925,869	13,551,284	15,065,433
Silk and manufactures.....	2,484,567	1,688,950	1,708,387
Rayon and manufactures.....	3,279,842	4,506,751	4,821,722
Wool and manufactures.....	1,085,112	996,116	1,070,281
Vegetable fibers and manufactures.....	3,881,983	4,144,788	4,434,652
Hats, caps and parts.....	410,567	429,622	349,829
Total.....	41,677,328	46,674,606	56,196,970
MACHINERY AND VEHICLES			
Automobiles and trucks.....	6,614,261	7,150,297	9,719,491
Automobile parts.....	1,929,626	2,070,470	2,939,017
Other cars and parts.....	1,474,139	1,813,826	1,809,374
Electrical machinery.....	5,830,861	6,854,637	7,607,766
Instruments and appliances.....	742,849	1,134,560	1,342,709
Agricultural implements.....	233,099	191,044	198,363
Machinery and parts.....	11,718,381	15,192,096	19,582,425
Total.....	28,543,216	34,406,930	43,249,145
INEDIBLE VEGETABLE PRODUCTS			
Automobile tires.....	2,864,250	2,757,262	3,529,661
Other rubber goods.....	1,604,970	1,784,912	1,954,669
Starch.....	754,945	535,543	656,762
Tobacco and manufactures.....	7,130,860	7,340,246	15,866,881
Total.....	12,355,025	12,417,963	22,007,973
METALS AND MANUFACTURES (EXCEPT MACHINERY)			
Aluminum and manufactures.....	190,985	275,800	308,736
Brass and manufactures.....	761,582	1,027,375	892,659
Copper and manufactures.....	401,831	428,935	463,803
Gold, platinum, etc.....	363,478	443,511	507,135
Lead and manufactures.....	303,370	362,343	395,883
Plated ware.....	335,503	312,676	170,835
Other iron and steel.....	20,080,128	23,297,735	26,011,555
Total.....	22,578,456	26,315,051	29,044,127
NONMETALLIC MINERALS			
Cement.....	43,817	68,611	250,687
Coal.....	2,082,920	1,566,798	1,984,979
Diamonds.....	1,049,934	866,690	588,111

APPENDIX II.—IMPORTS BY PRINCIPAL COMMODITY GROUPS FOR 1936 TO 1938,
INCLUSIVE—Continued

	1936	1937	1938
NONMETALLIC MINERALS			
	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Earthen, stone, and china.....	1,105,601	1,247,537	1,658,331
Glass and glassware.....	1,506,684	2,050,014	2,258,540
Mineral oils.....	14,325,501	12,559,820	15,818,175
Wax.....	919,361	1,072,128	993,875
Total.....	21,033,318	19,431,598	23,552,598
CHEMICALS AND RELATED PRODUCTS			
Chemicals, drugs, etc.....	5,576,887	5,702,083	8,881,410
Explosives.....	1,776,181	1,908,306	2,889,228
Fertilizers.....	4,271,720	3,504,361	2,967,146
Paints and varnishes.....	1,778,860	1,861,865	1,891,922
Perfumery and cosmetics.....	1,499,133	1,695,262	2,162,419
Soap.....	848,774	1,027,455	1,261,822
Total.....	15,751,555	15,699,332	20,053,947
MISCELLANEOUS			
Clocks, watches, and parts.....	507,568	819,221	990,099
Lamps and parts.....	646,930	865,568	847,981
Leather and manufactures.....	2,518,656	2,986,410	3,361,937
Musical instruments.....	362,577	513,041	608,923
Printed matter.....	1,910,988	1,882,103	3,090,562
Unprinted paper.....	4,531,659	5,739,095	7,377,787
Photo materials and equipment.....	631,953	763,711	1,141,648
Wood, bamboo, etc.....	913,243	1,088,463	1,536,176
Others.....	8,231,745	8,972,943	10,292,303
Total.....	20,255,319	23,630,555	29,157,416
Total imports.....	202,252,349	218,051,490	265,215,095

APPENDIX III.—EXPORTS OF THE PRINCIPAL COMMODITIES DURING 1936 TO 1938,
INCLUSIVE

	1936	1937	1938
AGRICULTURAL			
Crude materials:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Gums and resins.....	673,599	750,321	598,346
Leaf tobacco.....	4,532,606	2,485,753	2,846,158
Timber.....	2,612,871	3,926,421	2,461,380
Others.....	26,409	25,269	20,185
Total.....	7,845,485	7,187,764	5,926,069
Semimanufactures:			
Abaca.....	34,177,197	43,279,373	20,318,347
Maguay.....	2,116,407	2,174,213	652,746
Other fibers.....	1,497,544	1,679,044	906,245
Breadstuffs.....	79,803	279,242	44,961
Other chemicals.....	130,812	642,969	446,782
Copra.....	29,999,568	31,969,399	24,512,028
Copra cake and meal.....	3,659,079	5,800,358	5,495,086
Hats.....	1,176,578	933,190	634,807
Molasses and sirup.....	504,057	552,856	300,263
Coconut oil.....	27,577,767	40,926,802	21,410,526
Other oils.....	204,632	181,679	146,501
Spirits, distilled.....	223,187	168,713	203,925
Other tobacco.....	408,530	1,276,303	863,508
Lumber.....	3,586,369	3,959,803	3,189,161
Total.....	105,341,530	133,823,944	79,124,856
Finished manufactures:			
Cordage.....	2,317,739	2,872,921	2,398,062
Other fiber manufactures.....	156,455	165,206	251,905
Embroideries.....	8,549,110	7,399,002	10,215,802
Cigars.....	5,492,653	6,144,719	6,049,228
Tobacco.....	55,777	59,441	170,385
Lard and butter substitutes.....	1,572,696	1,523,689	1,526,109
Cutch.....	646,071	695,778	728,812
Furniture.....	254,423	436,523	466,550
Desiccated coconut.....	8,794,125	12,693,263	7,632,715
Other fruits and nuts.....	1,181,217	3,732,324	2,740,601
Centrifugal sugar.....	114,440,963	105,137,242	91,924,777
Refined sugar.....	9,433,421	10,256,683	8,118,936
Raw sugar.....	260	18,462	334
Ginger ale and malt liquors.....	757	1,572	2,153
Total.....	152,895,667	151,132,724	132,236,369
Total agricultural.....	266,082,682	292,144,432	217,287,324
NONAGRICULTURAL			
Crude materials:			
Copper ore.....	1,704	656,451	1,283,301
Chrome ore.....	307,518	1,542,100	1,576,845
Iron ore.....	2,868,427	2,652,078	4,080,645
Manganese ore.....	6,020	337,716	999,185
Hides and skins.....	290,401	638,767	497,208
Shells, unmanufactured.....	198,836	95,759	50,092
Others.....	34,590	280,341	94,863
Total.....	3,707,496	6,203,212	8,582,139
Semimanufactures:			
Copper from gold.....			465,587
Lead bullion.....		91,689	38,364
Others.....			250,893
Total.....		91,689	754,844

APPENDIX III.—EXPORTS OF THE PRINCIPAL COMMODITIES DURING 1936 TO 1938, INCLUSIVE—Continued

	1936	1937	1938
NONAGRICULTURAL			
Finished manufactures:	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
Shells, manufactured	447,685	573,614	438,608
Shoes and slippers	24,198	63,101	50,044
Soap	3,241	4,550	136,969
Others	8,866	12,989	17,021
Fish products	117,966	129,670	328,031
Total	601,956	783,924	970,673
Total nonagricultural	4,309,452	7,078,825	10,307,656
All others	733,210	871,151	1,123,864
Reexports	1,770,762	2,438,082	2,871,710
Total exports	272,896,106	302,532,500	231,590,554

APPENDIX IV.—TRADE BY PRINCIPAL AREAS FOR 1931 TO 1938, INCLUSIVE

	Total	U. S. A. ¹	Orient	Europe
	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>	<i>Pesos</i>
1931—Exports.....	207,944,148	167,878,006	12,098,423	26,184,842
Imports.....	198,357,437	124,748,159	48,836,752	22,454,979
Balance.....	9,586,711	43,129,847	-36,738,329	3,729,863
1932—Exports.....	190,676,161	166,005,496	7,955,463	15,675,935
Imports.....	158,790,170	102,983,294	33,928,886	19,941,385
Balance.....	31,885,991	63,022,202	-25,973,423	-4,265,450
1933—Exports.....	211,542,105	183,456,831	9,588,967	16,825,039
Imports.....	134,722,926	87,571,534	28,256,887	16,833,969
Balance.....	76,819,179	95,885,297	-18,667,920	-8,930
1934—Exports.....	220,807,271	184,606,977	13,937,696	19,202,537
Imports.....	167,214,221	109,359,541	36,690,356	19,093,530
Balance.....	53,593,050	75,247,436	-22,752,660	109,007
1935—Exports.....	188,491,360	150,945,381	16,364,929	18,680,155
Imports.....	171,047,699	109,405,709	41,613,429	17,346,767
Balance.....	17,443,661	41,539,672	-25,248,500	1,333,388
1936—Exports.....	272,896,106	216,076,120	22,716,802	30,109,051
Imports.....	202,252,349	123,703,709	51,406,380	23,638,065
Balance.....	70,643,757	92,372,411	-28,689,578	6,470,986
1937—Exports.....	302,532,500	243,338,597	27,873,999	26,665,446
Imports.....	218,051,490	127,313,056	60,003,073	25,676,678
Balance.....	84,481,010	116,025,541	-32,129,074	988,768
1933-37 average—Exports.....	239,253,868	195,684,781	18,096,479	22,296,446
Imports.....	178,657,737	111,470,710	43,594,025	20,517,802
Balance.....	60,596,131	84,214,071	-25,497,546	1,778,644
1938—Exports.....	231,590,554	180,891,621	22,815,873	23,652,279
Imports.....	265,215,095	181,556,478	49,911,282	28,437,392
Balance.....	-33,624,541	-664,857	-27,095,409	-4,785,113

¹ Includes Hawaii, Guam, Puerto Rico, and the Virgin Islands.

APPENDIX V.—PHILIPPINE FOREIGN TRADE, BY COUNTRIES

[Values in pesos: ₱1 equals U. S. \$0.50]

	Imports		Exports		Balance
	Value	Percent	Value	Percent	
1937					
Oriental:					
Australia.....	5,042,848	2.31	1,048,911	0.35	-3,993,937
British East Indies.....	4,826,447	2.21	1,395,921	.46	-3,430,526
China.....	6,623,292	3.04	1,933,897	.64	-4,689,395
French East Indies.....	2,711,857	1.25	95,273	.03	-2,616,584
Hong Kong.....	2,201,112	1.01	2,066,376	.68	-134,736
Japan.....	32,204,014	14.77	20,029,821	6.62	-12,174,193
Kwantung.....	159,977	.07	101,224	.03	-58,753
Netherland Indies.....	4,536,818	2.08	892,809	.30	-3,644,009
Siam.....	1,696,708	.78	309,767	.10	-1,386,941
Total.....	60,003,073	27.52	27,873,999	9.21	-32,129,074

APPENDIX V.—PHILIPPINE FOREIGN TRADE, BY COUNTRIES—Continued

[Values in pesos: ₱1 equals U. S. \$0.50]

	Imports		Exports		Balance
	Value	Percent	Value	Percent	
1937					
European:					
Belgium.....	2, 866, 639	1.32	1, 921, 058	.64	-945, 581
Denmark.....	62, 270	.03	1, 289, 382	.43	1, 227, 112
France.....	1, 686, 697	.77	1, 589, 749	.53	-96, 948
Germany.....	8, 288, 439	3.80	3, 622, 974	1.20	-4, 665, 465
Great Britain.....	5, 221, 277	2.39	12, 466, 196	4.12	7, 244, 919
Italy.....	268, 779	.12	1, 927, 459	.64	1, 658, 680
Netherlands.....	4, 406, 085	2.02	2, 137, 586	.71	-2, 268, 499
Spain.....	343, 572	.16	38, 688	.01	-304, 884
Sweden.....	901, 722	.41	893, 705	.29	-8, 017
Switzerland.....	1, 144, 699	.53	17, 965	.....	-1, 126, 734
Other European ¹	486, 499	.22	760, 684	.25	274, 185
Total.....	25, 676, 678	11.77	26, 665, 446	8.82	988, 768
Other Areas:					
Canada.....	3, 324, 320	1.52	1, 122, 132	.37	-2, 202, 188
All other countries.....	1, 734, 363	.80	3, 532, 326	1.17	1, 797, 963
Total.....	5, 058, 683	2.32	4, 654, 458	1.54	-404, 225
Total, foreign.....	90, 738, 434	41.61	59, 193, 903	19.57	-31, 544, 531
United States.....	126, 604, 072	58.06	241, 485, 983	79.82	114, 881, 911
Possessions ²	708, 984	.33	1, 852, 614	.61	1, 143, 630
Total.....	127, 313, 056	58.39	243, 338, 597	80.43	116, 025, 541
Grand total.....	218, 051, 490	100.00	302, 532, 500	100.00	84, 481, 010
1938					
Oriental:					
Australia.....	4, 800, 522	1.81	927, 926	.40	-3, 872, 596
British East Indies.....	4, 688, 601	1.77	1, 356, 416	.58	-3, 332, 185
China.....	6, 150, 669	2.32	1, 904, 536	.82	-4, 246, 133
French East Indies.....	973, 864	.37	113, 364	.05	-860, 500
Hong Kong.....	1, 613, 476	.61	1, 842, 347	.80	228, 871
Japan.....	25, 414, 083	9.58	15, 026, 342	6.49	-10, 387, 741
Kwantung.....	410, 879	.16	325, 556	.14	-85, 323
Netherland Indies.....	5, 842, 255	2.20	990, 670	.43	-4, 851, 585
Siam.....	16, 933	.....	328, 716	.14	311, 783
Total.....	49, 911, 282	18.82	22, 815, 873	9.85	-27, 095, 409
European:					
Belgium.....	2, 543, 101	.96	1, 163, 506	.50	-1, 379, 595
Denmark.....	103, 685	.04	3, 096, 761	1.34	2, 993, 076
France.....	2, 104, 958	.79	3, 184, 007	1.38	1, 079, 049
Germany.....	8, 309, 238	3.13	2, 988, 229	1.29	-5, 321, 009
Great Britain.....	5, 432, 927	2.05	6, 017, 116	2.60	584, 189
Italy.....	456, 649	.17	427, 432	.18	-29, 217
Netherlands.....	5, 833, 732	2.20	5, 082, 032	2.20	-751, 700
Spain.....	160, 673	.06	510, 510	.22	349, 837
Sweden.....	1, 035, 211	.39	697, 799	.30	-337, 412
Switzerland.....	1, 863, 503	.70	19, 551	.....	-1, 843, 952
Other European ¹	593, 715	.23	465, 336	.20	-128, 379
Total.....	28, 437, 392	10.72	23, 652, 279	10.21	-4, 785, 113
Other areas:					
Canada.....	2, 936, 529	1.11	586, 240	.25	-2, 350, 289
All other countries.....	2, 373, 414	.89	3, 644, 541	1.58	1, 271, 127
Total.....	5, 309, 943	2.00	4, 230, 781	1.83	-1, 079, 162
Total, foreign.....	83, 658, 617	31.54	50, 698, 933	21.89	-32, 959, 684
United States.....	180, 714, 457	68.14	178, 889, 989	77.24	-1, 824, 468
Possessions ²	842, 021	.32	2, 001, 632	.87	1, 159, 611
Total.....	181, 556, 478	68.46	180, 891, 621	78.11	-664, 857
Grand total.....	265, 215, 095	100.00	231, 590, 554	100.00	-33, 624, 541

¹ Includes Austria, Ireland, and Norway.² Includes Hawaii, Guam, Puerto Rico, and the Virgin Islands.

APPENDIX VI.—DETAILS OF IMPORTS FROM THE UNITED STATES DURING 1937
AND 1938

	1937		1938	
	Quantity	Pesos	Quantity	Pesos
Total breadstuffs.....		3,707,325		7,141,611
Wheat flour.....1,000 kilos	26,992	3,147,615	56,390	6,513,199
Total cars, etc.....		10,241,365		13,750,968
Passenger cars.....number	3,527	4,824,999	3,837	5,500,261
Trucks.....do	1,846	2,278,947	3,255	4,154,828
Automobile parts.....		2,027,574		2,951,738
Total chemicals, drugs, etc.....		3,753,301		6,251,441
Pharmaceuticals.....		1,826,378		3,414,760
Total cotton and manufactures.....		15,315,423		27,810,819
Cloth.....1,000 square meters	29,139	9,717,627	81,159	20,036,262
Clothing.....		930,011		1,111,887
Rags and remnants.....		2,098,873		2,970,066
Thread.....		940,548		1,817,879
Total earthen and clays.....		416,328		698,914
Total electrical goods.....		5,816,313		6,519,747
Radios.....		933,643		1,013,957
Machinery and motors.....		952,473		1,007,189
Total explosives.....		1,839,743		2,820,602
Dynamite.....1,000 kilos	2,076	1,186,606	3,187	1,922,147
Total fertilizers.....		1,405,729		2,170,187
Sulphate of ammonia.....1,000 kilos	11,327	745,698	19,764	1,256,288
Total vegetable fibers.....		123,806		83,766
Total fish.....		1,072,120		1,634,896
Sardines.....1,000 kilos	1,986	385,324	4,012	923,883
Total fruits and nuts.....		1,524,738		2,567,109
Fresh fruits.....		1,046,204		1,851,031
Total glass and glassware.....		627,027		869,657
Total rubber goods.....		3,913,230		4,734,940
Automobile tires.....number	111,397	2,401,076	128,013	3,146,979
Total instruments and apparatus.....		1,241,986		1,264,615
Total machinery and parts.....		12,157,505		16,313,727
Stationary and marine engines.....number	160	619,920	103	664,217
Mining machinery.....		2,898,363		4,050,300
Sewing machines.....number	22,191	1,844,403	38,641	3,218,208
Total leather and manufactures.....		2,717,115		3,103,203
Upper leather.....1,000 kilos	384	1,601,660	391	1,701,054
Total meat products.....		1,263,706		1,203,784
Total iron and steel (excluding machinery).....		15,983,586		20,113,690
Steel bars and rods.....1,000 kilos	4,619	548,755	12,811	1,578,640
Corrugated roofing.....do	17,484	2,966,005	15,880	3,495,926
Tin plate, terneplate.....do	8,003	1,421,045	11,508	2,603,284
Wire nails.....do	3,084	419,113	4,863	697,745
Wrought iron and steel.....do	2,404	7,203,038	3,998	1,020,016
Tools.....		1,123,713		1,155,345
Total dairy products.....		1,918,003		2,186,978
Condensed milk.....1,000 kilos	466	191,840	618	238,939
Evaporated milk.....do	5,164	1,322,094	5,652	1,505,412
Total mineral oils.....		9,718,242		12,308,150
Crude fuel oil.....1,000 liters	96,085	1,778,396	133,227	2,839,078
Gasoline.....do	113,978	4,257,216	104,893	5,068,856
Kerosene.....do	61,229	2,004,281	45,772	1,793,750
Lubricating oil.....do	10,519	1,256,691	21,886	1,983,871
Total paints and varnishes.....		1,384,213		1,466,680
Total paper.....		3,781,253		5,135,630
Printing paper.....1,000 kilos	5,638	1,194,087	8,618	1,830,010
Wrapping paper.....do	3,171	560,907	5,587	1,019,295
Total printed matter.....		1,617,553		2,728,434
Textbooks.....		651,310		1,297,279
Total perfumery, cosmetics, etc.....		1,445,900		1,844,342
Total natural silk.....		1,214,608		1,177,254
Total artificial silk.....		1,033,929		1,694,753
Rayon cloth.....1,000 square meters	442	457,998	1,211	1,152,070
Total soap.....		999,694		1,235,142
Total wines and liquors.....		532,046		691,444
Total tobacco products.....		7,251,950		15,801,490
Leaf tobacco.....1,000 kilos	460	612,561	804	1,110,968
Cigarettes.....1,000,000	1,829	5,871,043	4,022	13,730,666
Total vegetables.....		1,483,409		1,872,371
Total wood and manufactures.....		735,067		1,241,948
Total wool and manufactures.....		212,849		349,437

APPENDIX VII.—DETAILS OF EXPORTS TO THE UNITED STATES DURING 1937
AND 1938

	1937		1938	
	Quantity	Pesos	Quantity	Pesos
Total abaca.....1,000 kilos.....	40, 675	13, 702, 036	27, 767	4, 863, 229
Total other hard fibers.....do.....	1, 652	307, 082	356	114, 325
Total cordage.....do.....	2, 114	994, 934	1, 468	666, 937
Total embroideries.....		7, 122, 849		10, 045, 903
Total chemicals.....		1, 089, 667		793, 913
Cutch.....1,000 kilos.....	5, 586	695, 778	5, 205	728, 743
Total copper (ores, etc.).....		240		723, 314
Total copra.....1,000 kilos.....	207, 471	28, 849, 959	227, 442	16, 209, 171
Total copra cake and meal.....do.....	46, 298	2, 837, 601	36, 706	1, 574, 857
Total fruits.....		3, 346, 515		2, 130, 039
Canned pineapples.....1,000 kilos.....	10, 959	3, 345, 697	8, 911	2, 129, 466
Total desiccated coconut.....do.....	40, 436	12, 608, 591	34, 229	7, 621, 299
Total gums and resins.....do.....	1, 444	461, 244	1, 335	479, 413
Total hats.....number.....	437, 401	766, 880	354, 930	527, 615
Total hides and skins.....1,000 kilos.....	64	18, 896	57	14, 654
Total iron and steel.....do.....	1, 473	15, 550	217	11, 961
Iron ore.....do.....	1, 473	15, 550		350
Total vegetable lard.....do.....	381	131, 892	244	53, 587
Total vegetable butter.....do.....	632	225, 938	360	110, 364
Total coconut oil.....do.....	160, 306	40, 347, 406	159, 564	20, 706, 682
Total chrome ore.....do.....	65, 327	1, 405, 240	54, 061	1, 425, 389
Total manganese ore.....do.....	4, 715	81, 050		30
Pearl buttons.....gross.....	775, 841	548, 777	578, 114	425, 595
Total sugar.....1,000 kilos.....	868, 008	115, 221, 041	867, 938	100, 005, 372
Centrifugal.....do.....	812, 854	104, 987, 038	818, 068	91, 924, 777
Refined.....do.....	55, 027	10, 215, 851	49, 870	8, 080, 595
Total tobacco.....		6, 579, 152		6, 335, 251
Leaf tobacco.....1,000 kilos.....	1	808	151	72, 914
Cigars.....1,000.....	181, 378	5, 335, 212	180, 237	5, 390, 612
Other tobacco.....		1, 243, 132		871, 725
Total lumber and timber.....cubic meters.....	81, 303	2, 525, 239	52, 393	1, 558, 711

APPENDIX I

Message From the United States High Commissioner Read at the Final Session of the Convention of the National Foreign Trade Council, New York City (November 2, 1938)

I am happy to send a brief message to the National Foreign Trade Conference. That this message shall have to do with the Philippine Islands goes without saying. First, it is my work; second it isn't a trite subject—Americans know too little about these islands; and, in the third place, I wish to qualify some misconceptions concerning American-Philippine trade—misconceptions which have been widely accepted in spite of their inaccuracies.

Men have looked at the gross statistics of American-Philippine trade, for example for the year 1937, and have said, "\$126,057,000 worth of goods imported from the Philippines (exclusive of gold); sales to the Philippines of \$85,028,000—ergo \$41,029,000 lost."

I have had many, even trade experts, tell me that this situation is a calamity. That the United States would gain if it ceased trading with the Philippines altogether. It seems to me that such persons mistake arithmetic for economics. While the United States has long been able to report a favorable balance in her overseas trade with all nations, there never has been a year when the trade with certain countries did not result in a negative balance. United States trade figures for 1937 show: Balance with Brazil, negative in amount of \$52,000,000 or 28 percent of total trade—reason, coffee; balance with Chile, negative \$22,000,000 or 31 percent of total trade—reason, nitrates; balance with Cuba, negative \$56,000,000 or 23 percent of total trade—reason, sugar. Coming to this part of the world: Balance with British India, negative \$60,000,000 or 40 percent of total trade; balance with the British East Indies (Malaya) negative \$226,000,000 or 92 percent of total trade—reason, rubber and tin; balance with the Dutch East Indies, negative \$90,000,000 or 64 percent of total trade—reason, vegetable oil and rubber; balance with our own East Indies, the Philippines, negative \$41,000,000, or 19 percent of total trade—reason, vegetable oils and sugar. Thus it seems that the critics of negative balances might find a dozen examples more "horrible" than the Philippines. Follow the theory of these critics, stop trading wherever we have repeated negative balances, and what will have been accomplished? This much we do know would happen: not a few American factories would shut down for want of raw materials; not a few workmen would join the relief rolls for want of employment; we would do without tea, or coffee; we would use iron tires on our automobiles; we would cut down on the use of soap and sugar.

In a country whose trade is so great and so dispersed as that of the United States, negative balances with some countries are as normal as favorable balances with other countries.

Then there is another school of theorists that looks at free trade between the United States and the Philippines from the viewpoint of the amounts of tariffs not collected on each side. They point out that if Philippine goods paid full tariffs in the United States the sum would be very much greater than if United States goods paid full tariffs in the Philippines. They seldom mention that their calculations of the amount not paid by Philippine goods is based on the super-rates of the Hawley-Smoot tariff of 1930 and that the amount not paid by United States goods is based on the moderate rates of the Philippine tariff enacted for the Philippines by Congress in 1909 and not generally revised since that time. Now, it is apparent that a mere legislative enactment revising the Philippine tariff far enough upward could, without changing trade trends and values, result in the Philippines foregoing more revenue on United States goods than the United States on Philippine goods. I certainly would not attempt to defend the Hawley-Smoot tariff—its rates were far too high for the good of American trade. Nor have I any attachment to the Philippine tariff—its rates are too low to afford United States goods due protection in this market and it can be changed by action of Congress when and if Congress so desires. I merely wish to show the fallacy in the arguments of some of our trade theorists.

But let us return to United States-Philippine trade in 1937, and, using the figures of the United States Department of Commerce subject it to a more discriminating study.

First from the \$126,057,000 of purchases there should be subtracted \$7,620,000, the value of Manila hemp imported from the Philippines. This is on the United States free list and has never received any preference or protection in the United States market. It is needed by American producers of rope. There are other minor free-list items which for the present may be disregarded. Eliminating Manila hemp, the United States purchases are reduced to \$118,437,000 and the sales remaining at their same figure, the balance favorable to the Philippines is reduced to \$33,409,000.

Now let us consider the exchange of certain specific commodities under the existing free-trade provisions between the United States and the Philippines as these are shown in the statistics for 1937:

Of tobacco products the United States purchased \$3,418,000 worth from the Philippines, mostly cigars, but sold the Philippines \$5,615,000 of tobacco, mostly cigarettes.

The United States purchased \$679,000 worth of hemp yarn, twine, and cordage from the Philippines, but sold the Philippines \$792,000 worth of cotton thread, twine, and cordage.

The United States purchased from the Philippines \$1,669,000 worth of wood products, but on the other hand sold to the Philippines \$3,101,000 worth of wood and paper products.

The United States purchased from the Philippines \$35,438,000 worth of coconut oil and copra of which approximately a third, or \$11,813,000 worth, went into the manufacture of margarine and other edible products said to be in competition with the American farmers' animal fats and cottonseed oil. Against this may be set sales to the Philippines of American farm products to the amount of \$11,942,000 worth of animal and vegetable products other than tobacco and rubber goods—principally meat, milk, wheat flour, fresh and preserved vegetables, fruits and nuts, and leather goods. In this connection it should be noted that in 1937 the United States imported from countries other than the Philippines \$30,000,000 worth of edible oils including nearly \$12,000,000 worth of cottonseed oil.

Two-thirds of the coconut oil and copra which the United States purchased from the Philippines, or \$23,625,000 worth, went into the manufacture of nonedible industrial products, principally soap. Against this amount may be placed \$25,076,000 representing the value of United States sales to the Philippines of mineral oils, chemical products and textile products, principally cotton goods. Concerning this exchange, it is interesting that in 1937 the United States imported from countries other than the Philippines over \$61,000,000 worth of industrial vegetable oils not including essential oils.

The United States purchased from the Philippines \$18,035,000 worth of all other commodities except sugar, against which may be balanced sales to the Philippines of \$19,095,000 worth of machinery and vehicles including automobiles, typewriters, sewing machines, radios, etc.

There is left of United States purchases the \$59,198,000 worth of sugar. This may be partly offset by charging against it the gains in trade in the foregoing commodity exchanges amounting to \$6,382,000 plus sales of iron and steel goods, hardware and rubber goods totaling \$19,407,000.

Thus it may be reasonably said that United States Philippine trade in 1937 was offsetting or reciprocal, except for \$33,409,000 worth of sugar.

Is this sugar in competition with United States cane and beet sugar? The annual sugar consumption in the United States is about 7,000,000 short tons. About 4,000,000 short tons are produced on the mainland, in Hawaii, Puerto Rico, and the Virgin Islands combined. The deficit of 3,000,000 short tons is made up by importing slightly over 2,000,000 tons from Cuba, about 970,000 tons from the Philippines, and the balance from foreign countries other than Cuba. One is forced to conclude that up to the present time Philippine sugar has not replaced mainland sugar. I feel certain that if, in the future, Philippine sugar should come into direct competition with mainland sugar, the Philippines would be willing to share with Cuba and foreign countries appropriate reductions in their quota.

I am not arguing for letting down the bars. I realize that Philippine sugar, coconut oil and cordage, under the careless statesmanship of the twenties increased with such alarming rapidity that they threatened to come into unsupportable competition with homeside productions. But since 1934 the situation has been rationalized both by

duty-free limits and fixed quotas. With the experience of the past, good statesmanship on both sides will prevent the recurrence of the threat of harmful competition.

There are characteristics of trading in the Philippines which in these times should interest every farmer and manufacturer of the United States. The Philippines is a peaceful place, with a currency backed 100 percent by dollar reserves. There are no blocked pesos, there are no restrictions on the purchase and sale of exchange, there are no quotas against incoming goods.

In conclusion, if we accept the only common-sense interpretation of trade between two countries, "purchasing what you need but have not, and selling what you have but do not need," the trade between the United States and the Philippines as it has developed under the free-trade provisions can be shown to be wholly normal and mutually advantageous. In this day, when the United States seeks a market for surplus goods, this trade should be maintained. It can be maintained through appropriate legislative action.



